REPORT of the ROYAL COMMISSION ON PRICE SPREADS OF FOOD PRODUCTS

VOLUME I

SEPTEMBER 1959

Mrs W R Walton Jr.

Canada. Royal commission on price
spreads of food products
Report v. 1. 1959

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Volume I

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SEPTEMBER 1959

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TO HIS EXCELLENCY

THE GOVERNOR GENERAL IN COUNCIL,

MAY IT PLEASE YOUR EXCELLENCY,

We, the Commissioners, appointed as a Royal Commission in accordance with the terms of Order in Council P.C. 1957-1632, to examine and to make recommendations upon certain matters relating to the price spreads of food products of farm and fisheries origin in Canada:

BEG TO SUBMIT TO YOUR EXCELLENCY

THE FOLLOWING REPORT.

P.C. 1957-1632

Certified to be a true copy of a Minute of a Meeting of the Committee of the Privy Council, approved by His Excellency the Governor General on the 10th December, 1957.

The Committee of the Privy Council, on the recommendation of the Right Honourable John George Diefenbaker, the Prime Minister, advise that:

Dr. Andrew Stewart, Edmonton, Alberta
Mrs. Dorothy Walton, Toronto, Ontario
Mr. Howard MacKichan, Halifax, Nova Scotia
Mr. Romeo Martin, Montreal, Quebec
Dr. W. M. Drummond, Guelph, Ontario
Mr. Cleve Kidd, Toronto, Ontario, and
Mr. Bernard Couvrette, Montreal, Quebec

be appointed Commissioners under Part I of the Inquiries Act, to:

(*a*) inquire into the extent and the causes of the spread between the prices received by producers of food products of agricultural and fisheries origin and the prices paid by consumers therefor;

(*b*) determine whether or not such price spreads in general or in particular cases are fair and reasonable, or are excessive, in relation to the services rendered;

(*c*) make such recommendations as they deem appropriate if any such price spreads are found to be excessive;

(*d*) examine the adequacy of price information currently available.

The Committee further advise:

1. That the commissioners be authorized to exercise all the powers set out in section 11 of the Inquiries Act;

2. That in the exercise of their powers to employ counsel, experts and assistants under section 11 of the Inquiries Act, the Commissioners may authorize remuneration to such persons and reimbursement for their expenses within such limits and on such conditions as the Treasury Board may determine from time to time;

3. That the Commissioners adopt such procedure and methods as they may from time to time deem expedient for the proper conduct of the inquiry and sit at such times and at such places in Canada as they may decide from time to time;

4. That the Commissioners be assisted to the fullest extent by government departments and agencies;

5. That the Commissioners report to the Governor in Council;

6. That Dr. Andrew Stewart be Chairman of the Commission.

R. B. BRYCE
Clerk of the Privy Council.

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COMMISSION

appointing

DR. ANDREW STEWART ET AL.,

Commissioners under Part I of the Inquiries Act to enquire into the extent and the causes of the price spread between producers and consumers of food products.

DATED .... 10th December, 1957

RECORDED .... 9th January, 1958

Film 66 Document 249

(Sgd.) H. W. Doyle

FOR REGISTRAR GENERAL OF CANADA

Refer. No. 154158

(Sgd.) P. Kerwin
CANADA

(SEAL)

(Sgd.) W. R. Jackett
DEPUTY ATTORNEY GENERAL,
CANADA

ELIZABETH THE SECOND, by the Grace of God of the United Kingdom, Canada and Her other Realms and Territories QUEEN, Head of the Commonwealth, Defender of the Faith.

TO ALL TO WHOM these Presents shall come or whom the same may in anywise concern,

GREETING:

WHEREAS pursuant to the provisions of Part I of the Inquiries Act, chapter 154 of the Revised Statutes of Canada, 1952, His Excellency the Governor in Council, by Order P.C. 1957-1632 of the tenth day of December, in the year of Our Lord one thousand nine hundred and fifty-seven, a copy of which is hereto annexed, has authorized the appointment of Our Commissioners therein and hereinafter named

(*a*) to inquire into the extent and the causes of the spread between the prices received by producers of food products of agricultural and fisheries origin and the prices paid by consumers therefor;

(*b*) to determine whether or not such price spreads in general or in particular cases are fair and reasonable, or are excessive, in relation to the services rendered;

(*c*) to make such recommendations as they deem appropriate if any such price spreads are found to be excessive; and

(*d*) to examine the adequacy of price information currently available and has conferred certain rights, powers and privileges upon Our said Commissioners as will by reference to the said Order more fully appear.

NOW KNOW YE that, by and with the advice of Our Privy Council for Canada, We do by these Presents nominate, constitute and appoint Doctor Andrew Stewart, of the City of Edmonton, in the Province of Alberta; Mrs. Dorothy Walton, of the City of Toronto, in the Province of Ontario; Howard MacKichan, Esquire, of the City of Halifax, in the Province of Nova Scotia; Romeo Martin, Esquire,

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of the City of Montreal, in the Province of Quebec; Doctor W. M. Drummond, of the City of Guelph, in the Province of Ontario; Cleve Kidd, Esquire, of the City of Toronto, in the Province of Ontario and Bernard Couvrette, Esquire, of the City of Montreal, in the Province of Quebec, to be Our Commissioners to conduct such inquiry.

TO HAVE, hold, exercise and enjoy the said office, place and trust unto the said Doctor Andrew Stewart, Mrs. Dorothy Walton, Howard MacKichan, Romeo Martin, Doctor W. M. Drummond, Cleve Kidd and Bernard Couvrette, together with the rights, powers, privileges, and emoluments unto the said office, place and trust of right and by law appertaining during Our pleasure.

AND WE DO hereby authorize Our said Commissioners to exercise all the powers conferred upon them by section 11 of the Inquiries Act.

AND WE DO further authorize that in the exercise of their powers to employ counsel, experts and assistants under section 11 of the Inquiries Act, the Commissioners may authorize remuneration to such persons and reimbursement for their expenses within such limits and on such conditions as the Treasury Board may determine from time to time.

AND WE DO hereby authorize Our said Commissioners to adopt such procedure and methods as they may from time to time deem expedient for the proper conduct of the inquiry and sit at such times and at such places in Canada as they may decide from time to time.

AND WE DO hereby direct that the Commissioners be assisted to the fullest extent by government departments and agencies.

AND WE DO hereby require and direct Our said Commissioners to report their findings to Our Governor in Council.

AND We further appoint the said Doctor Andrew Stewart to be Chairman of Our said Commissioners.

IN TESTIMONY WHEREOF We have caused these Our Letters to be made Patent and the Great Seal of Canada to be hereunto Affixed.

WITNESS:

The Honourable Patrick Kerwin, Chief Justice of Canada and Deputy of Our Right Trusty and Well-beloved Counseller, Vincent Massey, Member of Our Order of the Companions of Honour, Governor General and Commander-in-Chief of Canada.

AT OTTAWA, this Tenth day of December in the year of Our Lord One thousand nine hundred and fifty-seven and in the Sixth year of Our Reign.

BY COMMAND,

(Sgd.) W. P. J. O'Meara

ACTING UNDER SECRETARY OF STATE

ACKNOWLEDGMENTS

The Order in Council appointing the Commission was approved on the 10th December, 1957. After the period required to assemble staff and to announce public hearings, the Commission opened its first hearings in Vancouver on April 9, 1958. Other hearings were held in the Western Provinces and the Atlantic Provinces, terminating in St. John's, Newfoundland, on May 3, 1958. The weight of evidence received in April and May was obtained from representatives of primary producers and consumers. During the summer months the Commission brought together a number of research workers, and prepared a questionnaire for distribution to firms engaged in the food industries. With the questionnaire, which was to be returned to the Commission by November 14, 1958, there was extended to business firms an invitation to appear at autumn hearings to be held in the Central Provinces. The fall hearings commenced in Toronto on September 12, 1958, and ended in Ottawa on November 21, 1958. The food industries were well represented during the hearings in September, October and November.

The Commission visited 13 cities, including the capitals of all 10 provinces. During the 31 days of hearings the Commission received 100 submissions. The dates of hearings are given in Appendix A; the list of submissions received and filed as exhibits is contained in Appendix B, which also records certain other documents received by the Commission. Appendix C includes a list of the firms in food industries to which questionnaires were sent and from which completed questionnaires were received.

We acknowledge the co-operation of all the organizations and firms who supplied information to the Commission, either through briefs submitted during the public hearings or through the return of completed questionnaires. The opportunity to meet with the representatives of primary producers, labour organizations, consumers, and business firms, to hear from them, and to ask questions of them was a valuable and illuminating experience. It did disclose to us the contrast of viewpoints in different parts of the country, the sharp divergence of interests and attitudes which characterize different segments of the economy, and the tensions which develop at points at which interests of buyers and of sellers meet. These conditions must be appreciated if the social problems they create are to be approached on a realistic basis, and if workable criteria of the general good are to be established. We feel that the Commission was well served by the submissions made to it.

In our report we have referred to the importance of information which can be obtained only from business firms engaged in buying and selling, and have noted the problem which this presents to the firms involved. We point out that the Commission could not have pursued its inquiries as far as it did without the contribution made by the firms from which completed questionnaires were obtained. We wish to acknowledge their co-operation and to thank them for it.

The list of briefs refers to a number of submissions made by, or on behalf of, Governments of the Provinces. These were particularly helpful to the Commission. At the same time we record with appreciation the generous hospitality extended to us in a number of the capital cities.

The Commission has received the utmost co-operation and much valuable assistance from a number of Departments of the Government of Canada. Both the Department of Agriculture and the Department of Fisheries contributed personnel to the staff of the Commission, and senior officials of the departments were most helpful in their advice and in providing information at their disposal. Our contact with the product of the Dominion Bureau of Statistics has been close and continuous, and the insight we have gained into the complexities of the collection, compilation and presentation of national statistics has left us impressed with the quality of the work being done by the Bureau. Our staff has profited by frequent consultation with officers of the Bureau.

The extensive research program undertaken by the Commission has been under the general direction of Mr. J. B. Rutherford. Mr. Rutherford, who was loaned to us by the Department of Fisheries, brought to the work of the Commission a rich experience in both agriculture and fisheries, and an intimate knowledge of statistics in these fields. We are particularly grateful to him for the care and attention he has given to the development of the research projects, and for his invaluable advice. The studies of price spreads of particular commodities which will appear in Volume III represent a substantial part of the research program. These studies were under the direct supervision of Professor W. E. Haviland, who came to the Commission from the Department of Agricultural Economics, Macdonald College, McGill University. The quality of the commodity studies reflects the competence which Dr. Haviland brought to his particular task.

Other members of the staff who were associated with us throughout the whole program, and to whom we express our appreciation, include: Mrs. F. M. McLean, on loan to the Commission from the Department of National Defence, who has been responsible for studies of various aspects of consumer demand; Mr. H. C. Frick, of the Department of Fisheries, who has contributed to our inquiries into the fisheries; Mr. R. E. F. Jones, Economics Division, Department of Agriculture, who has carried through the analysis of the financial statements received from business firms; Mr. G. Beckford, who has assisted in the measurement of the marketing bill; and Mr. Z. Y. Yankowsky and Mr. K. E. Cann, Economics Division, Department of Agriculture.

During the summer of 1958 the research program was advanced by assistance from a number of workers drawn from the universities, some of whom returned in the summer of 1959 to assist in the completion of the work. These included Professor W. J. Anderson, Department of Agricultural Economics, University of British Columbia; Professor A. Breton, Department of Economics, University of Montreal; Professor D. Eldon, now of the Department of Economics, University of Western Ontario; Professor D. D. Monieson, Institute of Business Administration, University of Toronto, now at the Wharton School of Finance and Commerce; Professor R. Mundell, Department of Economics, University of British Columbia, now at Stanford University. Professor R. Parenteau of the University of Montreal joined the staff during the summer of 1959.

Dr. D. W. Carr undertook the assignment of preparing a report for the Commission on the participation of government in food marketing.

We wish to express our appreciation of the services rendered to the Commission by all members of the research team.

In addition to the secretarial and clerical staff, we acknowledge our indebtedness to Miss A. Thatcher who assisted in editing the manuscript; to Mr. G. Gordon, who served as a student assistant in the summers of 1958 and 1959; to Mr. E. F. Coulson for the helpful manner in which he made the arrangements necessary for the smooth functioning of the organization; and to Mr. A. A. Caron of the Department of Trade and Commerce, who, until the completion of the public hearings, acted as Assistant Secretary.

A heavy share of the responsibility for planning the work of a Royal Commission and for preparing the Commission's report necessarily falls upon the Secretary. The Commission was fortunate to obtain as Secretary, Dr. J. A. Dawson, Economics Division, Department of Agriculture. Dr. Dawson has earned our warm appreciation and gratitude by his skill in organization, his constant courtesy and consideration, and his sound judgment and advice.

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Volume I

CHAPTER 1

INTRODUCTION

The Commission early discovered that the terms of reference were deceptively simple. We endeavoured to limit our inquiries to those matters which could be contained within the terms of Order in Council 1957-1632; and indeed were subject to some criticism for our decision that these terms did not extend to embrace such matters as deficiency payments. Broadly, we interpreted the problem with which we were concerned as being to look at prices received by farmers and fishermen, and prices paid by consumers, to measure the differences between these, to inquire into the activities between the markets in which producers' prices are determined and the markets in which consumers are buyers in order to arrive at the causes of price spreads, and to reach our conclusions as to whether these activities contributed, in particular instances or in general, to "excessive spreads".

It soon became evident that we could not ignore factors lying outside the food marketing system. *In the first place,* the prices received by primary producers are influenced by factors on the supply side. While we have not attempted a complete analysis of the conditions of farm production and supply in recent years, we have given enough attention to this aspect of the problem to satisfy ourselves that the decline in farm prices which occurred in 1951 was associated with conditions of agricultural production and supply prior to and following 1951 and to the difficulties encountered in external markets. *In the second place,* the prices paid by consumers are influenced by the conditions of consumer demand. Interpretation of changes in consumer prices has required a thorough study of consumer demand during the period with which we have been concerned, and we have been led inevitably to the conclusion that the advance in consumer prices which has occurred since 1949 has been related to the growth and changing character of consumer demand. *In the third place,* no part of the economy exists or develops in isolation. We were not charged with the responsibility of reporting on changes in prices generally. However, our inquiry into the causes of changes in the price spreads of food products has required us to give consideration to the general economic environment in which changes in food marketing have occurred, and to observe the impact of factors not specific to food marketing on food prices and food price spreads.

Again, it soon became apparent to us that the problems of measurement of price spreads were complex and difficult, and that, even with the excellent statistical services maintained in this country, much of the information needed for accurate measurement was not available, and indeed could not be expected to be available. Reference to these problems is made throughout the report; no elaboration is needed here. The Commission has endeavoured to make use of all available data which could throw light on the changes in price spreads which have occurred in the last 10 years. This has involved a number of approaches. Each approach has carried the available data as far as they would permit analysis.

In the Commission's studies of price spreads and related matters, we have generally been concerned with the period from 1949 to 1958, i.e., with data

covering the past 10 years. This period was selected for a number of reasons. *First,* The Royal Commission on Prices (Curtis Commission) reported on price changes from 1939 to 1948.[1] *Second,* many statistical series of the postwar years have been calculated on the base year, 1949. *Third,* the period is long enough that significant trends are not obscured by year-to-year irregularities. *Fourth,* the years covered are sufficiently recent to be relevant to the immediate situation. *Fifth,* although within the 10-year period the general conditions have not been uniform, the period is long enough to observe the general conditions prior to the collapse of farm prices in 1951, the subsequent decline, and the strengthening of prices at the farm in 1957 and 1958.

We report separately on the price spreads of products of agricultural origin and those of fisheries origin. Our reason for so doing is that the conditions of production and marketing of fisheries products are often significantly different from those affecting agricultural products. We have made some generalizations about the marketing of farm products which do not apply to the marketing of fisheries products. On the other hand, some parts of the analysis of the factors affecting price spreads of farm products do apply to fisheries products. Consequently, in the portion of the report dealing with fisheries we have been able to draw upon conclusions already established in the earlier and more lengthy discussion of agricultural price spreads.

In the dynamic decade 1949 to 1958 the Canadian economy underwent substantial changes. Among these changes was the considerable increase in production per man in farming, with which were associated the decline in farm prices and the decrease in numbers employed in agriculture. Another substantial change was the growth of urban population and the rapid extension of metropolitan areas in which shopping centres and food supermarkets were conspicuous features. Early in our inquiries it became evident to the Commission that, during the last 10 years, the chain organizations, of which the food supermarket is a distinguishing characteristic, had played a role of unique importance in the development of food marketing. Nothing we have learned from our inquiries has altered this view. In view of these considerations the Commission in its report has directed particular attention to the retailing segment of the food marketing system.

It would have been interesting, and in some respects useful, if the Commission could have broken down the marketing bill or aggregate spread into its main segments, viz., assembling, processing, wholesaling and retailing, and each of these segments into its main components, viz., expenditures by food marketing firms for services rendered to them by other firms (e.g., transportation, packaging, advertising, cold storage, non-food materials, heat, light and power, etc.), and payments made by food marketing firms in taxes, wages, interest, and profits. The inherent statistical difficulties made it impossible to complete an analysis along these lines which it was felt would yield sufficiently reliable or significant measurements. For reasons which we have stated in our report, we do not feel that aggregates, or the proportions of an aggregate, throw much light on the essential problems of the spread. However, it might help in the interpretation of the information contained in the report if more were known of the relative magnitudes of the principal segments of the marketing bill. On the basis of the rough estimates

[1]The Royal Commission on Price Spreads, appointed July 1934, reported in 1935.

that can be made, it appears to us that wholesaling and retailing combined represent about one-third of the aggregate spread, and processing about one-half. The majority of the Commissioners feel that it is not possible to spell out more accurately or in more detail the quantities involved.

The study of the processing segment of food marketing is particularly involved. Each industry—Meat Products, Dairy Products, Bakery Products, Flour Mills, Fruit and Vegetable Preparations, Sugar Refineries, and Breakfast Foods—includes a number of large firms, as well as small ones, and each industry has its own characteristics. The Commission has studied the food processing industries in general and, as far as possible, in particular, but we do not pretend that we have given to each processing industry the consideration we have been able to give, with time and resources available, to food wholesale and retail distribution. A thorough analysis of the operation of processing industries would require more specific attention to each industry and to the circumstances peculiar to it.

We have organized our material to be published in three volumes.

Volume I contains our acknowledgements, this introduction, a summary of Parts I to V of Volume II, our conclusions and recommendations on agriculture, and our summary of Part VI of Volume II, along with our conclusions and recommendations on fisheries, as well as some appendices.

Volume II includes the full discussion under Parts I to VI.

Volume III is a supplementary volume which reproduces a number of research documents, statistical data, and more extended studies of the marketing of particular commodities, all prepared by members of the research staff of the Commission.

In Part I of Volume II, we introduce the problem by using the indexes of producers' prices and of consumers' prices prepared by the Dominion Bureau of Statistics. This basis of comparing the general movement of prices received by farmers and paid by consumers was frequently used by representatives of producers and of consumers in submissions made to us. We point out that the relation between the indexes does not provide for measurement of the spread, but that changes in the relation reflect changes in the general spread between producers' and consumers' prices. We take advantage of this approach to develop certain points relevant to the problem. In particular, we comment on the causes of the decline in agricultural prices which commenced in 1951 and continued up to 1957, and we analyze the effects of changes in relative prices on the real incomes of farmers and of consumers in general.

In Part II, we discuss the structure and functions of the food marketing system and the changes occurring in the last 10 years. The statistical data in this part are drawn from a number of sources including the Census of Distribution, the questionnaires distributed to business firms, and the published taxation statistics. We are all accustomed to the distincion beween retailing, wholesaling, processing and assembling of primary products. Indexes of intermediate prices are not available to enable us, in a general way, to discuss retail spreads, wholesale spreads, processing spreads and assembling spreads. However, we know that intermediate prices are determined in markets, and that the prices in these markets depend upon the structure of the market, i.e., the organization and bargaining strength of buyers and sellers, and that the spreads are related to the functions

performed at each level of the marketing system. In the discussion of changes in structure and functions, we bring out the importance of recent changes in consumer demand, the adaptation of retail organization to these changes, and the modification of structure and functions at other levels of marketing.

In Part III, we introduce the available data on the "gross margins" of firms engaged in the marketing of food products. These data are drawn from the financial records of business firms assembled by the Dominion Bureau of Statistics, and from the questionnaires distributed by the Commission. The approach is to spreads in terms of the operations of firms engaged in retailing, wholesaling and processing of food products. This approach gives some indication of the changes in spreads at these levels during the last 10 years. Many submissions made to the Commission by business firms and by labour organizations referred to changes in the composition of gross margins expressed as a per cent of sales. We present the analysis of gross margins in this way, and go on to a more detailed analysis of wages, taxes and profits which enables us to comment on the relations between these factors, the margins of food marketing firms, and food prices.

In Part IV, we look further at consumer demand and bring together data from various sources to present our measurement of the growth of the national food marketing bill over the past 10 years. This provides still another approach to the problem of price spreads of food products. The marketing bill represents the difference between the "revenue" received by farm producers from products sold in Canada and the "expenditures" of consumers on food of domestic origin. The increase in the marketing bill results from the increase in population, additional services provided in the marketing system, and the general rise in prices. In the process of estimating the food marketing bill, we have an opportunity to study the growth of some of the components, and we comment on transportation, storage, advertising and packaging as among the factors contributing to the increase in price spreads. We point out that together these represent only about 25% of the total marketing bill.

In Part V, we present our analysis of the changes in price spreads for a number of farm commodities. Here we are concerned with the difference between the price per unit received by the producer and the price per unit paid by the consumer. The necessary data are brought together from a number of sources. The interpretation which can be put on the results depends upon the methods of measurement used, and we have, therefore, set out at some length the assumptions made and the techniques employed. We measure an annual spread for the whole of Canada. This generalized measure is not likely to conform to the experiences of particular places and times. Consequently, where possible, we have dealt with particular situations which we heard about in submissions from producers and others. We summarize the evidence on particular spreads.

In Part VI we present our analysis of price spreads for fisheries products and discuss the problems of fish marketing.

Both Volumes I and II are signed by the Commissioners and constitute the Report of the Commission. The matters we have considered, and on which we have reported, involve problems the elements of which cannot always be given quantitative expression and to which there are no mathematical solutions. They

are obviously matters on which judgments frequently differ even among well-informed persons. In such situations, no final or completely acceptable "solutions" may be possible. But, in relation to the day-to-day decisions that have to be made, reasonable people will agree to workable answers which will tend to reduce rather than to aggravate the tensions which result from differences in interests and judgments. If each member of the Commission had been alone responsible for a report on the matters referred to us, each would have produced a somewhat different document. Each individual report would have included some thoughts we have left unsaid, and would have omitted or said differently things which appear in our report. There would have been greater or less emphasis on various points. All members of the Commission have signed the report. Commissioner Walton has attached a memorandum of reservations and Commissioner Couvrette an addendum.

AGRICULTURE

CHAPTER 2

SUMMARY OF VOLUME II, PARTS I TO V, AGRICULTURE

Part I. The General Problem and Its Setting

The problem of price spreads of food products is a problem of changes in the relation between prices and consequent changes in incomes.

The indexes of farm prices and of retail food prices show that, during the period 1949 to 1958, farm prices tended to decline while food prices tended to increase. The general spread therefore increased. The widening of the spread began in 1952 when farm prices broke sharply, and the greatest increase occurred in 1952 and 1953 as farm prices declined rapidly.

The phenomenon was not peculiar to Canada. The prices of raw materials, including food materials, entering into international trade declined generally in the early '50's, with effects on farm prices in most countries. There was, on the other hand, a universal tendency for retail food prices and for the level of retail prices generally to rise during the 1949-58 period.

The spread is related to what happens between the farm and the consumer, that is, in the food marketing system, but it is affected also by factors outside the marketing system—factors affecting consumer demand and factors affecting the supply of agricultural products. During the period under consideration increasing consumer incomes and demand have been operating in the direction of pulling prices up; increased productive capacity on farms and consequent pressure of agricultural supplies have been tending to pull prices down. In the widening spread the forces of consumer demand and agricultural supply have been important factors. Later in the report we emphasize various conditions in the food marketing system which have also had their effect on the spread.

The changes in relative prices, 1949 to 1958, were associated with an increase of about 2% per annum in real incomes of Canadian consumers in general. As food prices rose less than retail prices generally, consumers' real incomes in terms of food increased more rapidly. However, in the same period the real incomes of farm people generally declined at a rate of about 1% per annum. These generalizations hold for all consumers taken together and for all farm families. Some groups of consumers experienced a decline in their real incomes. It is not possible to obtain information on incomes of particular groups of farms classified according to the main product produced; if this information were available, we believe it would show that the position of some groups of farm producers has improved in terms of real incomes.

Part II. The Functions and Structure of the Food Marketing System

The major change in the entire food marketing system during the past 10 years has been the emergence of the chain supermarket as the dominant institution. Food retailing has become more concentrated, and there has been a pronounced

move towards integration of wholesaling and retailing functions. The corporate chains have extended their operations in wholesaling; the voluntary chains, mainly wholesaler-sponsored, have reached forward into retailing and have expanded operations along with their corporate rivals.

The chains, both corporate and voluntary, have turned to the supermarket form of retail outlet and, in a period of substantial changes in the living habits of consumers, have proved remarkably effective in anticipating, and adapting themselves to, growing urbanization and changing patterns of consumer behaviour associated directly and indirectly with increasing incomes. The evidence of this is visible in the now familiar grocery supermarket, in shopping centres, and elsewhere within the cities and particularly in the burgeoning suburbs of the principal metropolitan areas.

The general conditions—falling food material prices and rising consumer demand—have been favourable to the food marketing system generally.

In retailing the relative growth of the chain organizations has been facilitated by their greater capacity to finance expansion, and by their relative efficiency which results mainly from ability to employ highly skilled management personnel to guide their large and centralized operations. But the chains are not low-cost, low-price firms. Under the general conditions prevailing they have featured service competition rather than price competition. They have not only shown great skill in adjusting to changes in consumer demand; they have also been effective in the use of devices to influence it.

The supermarket is, in effect, a convenient display area. The strategy of the chains is directed towards securing the maximum volume of business from each store. A number of means are employed to this end. The location of each store is chosen with care, and the facilities are made attractive and convenient. Turnover per unit of shelf space is an important consideration. The stores stress "value" and "create an image of quality". Commodities are priced as "specials" in order to attract customers to the stores, and devices are employed to encourage "impulse buying". We have been unable to find any consistently applied principle of pricing particular commodities, other than that prices are adjusted in such a manner as is expected to maximize the volume of sales from the store.

The activities of food merchandisers have not increased the per capita consumption of food: consumption of the main groups of food materials has changed only in the directions and to the degree normally associated with increases in consumer incomes. The chain stores have, to an increasing extent, become purveyors of services attached to food materials and associated with food buying. Some of these services have, as it were, been imposed on the food merchant by the changing structure of society and the emerging needs of people as consumers. Other new services have sprung from or have been made possible by technical innovations which serve better the wants of buyers. Still other services are the ingenious contrivances of sellers in the constant struggle to preserve or expand their position relative to their competitors, i.e., to preserve or expand their "share of the market".

In this business of wooing the consumer, the small independent retail food store has found it difficult to match the chain stores in the metropolitan areas. As we have indicated, many "independent" retail food stores have entered into

co-operative arrangements for buying or have come under the wing of a wholesale organization. Unattached independents still do about one-third of the nation's food retailing, however. In those less populated parts of the country where the chain store does not operate, the independent store has maintained its position. Individual stores have done well. This is true too in the metropolitan centres. The more enterprising have modernized their operations and have continued to serve a large number of customers who require or want services different from or not provided by the methods of the chain supermarket. The persistence of the independent store in metropolitan centres where the chains are well established demonstrates that even where mass merchandising methods have the best chance of succeeding there is still opportunity for the store under individual management which has greater flexibility in meeting the needs of its particular locality.

As we have noted, wholesaling has become increasingly integrated with retailing, and the activities of many firms designated as wholesalers have expanded through their association with groups of retailers. These developments have rendered more difficult the position of the wholesaler who continues to serve unattached independent retailers.

Under the conditions prevailing during the period food processing proved profitable and processing industries generally contributed to the widening range of services offered to consumers. At the beginning of the period there was already a fairly high degree of concentration in most food industries—Prepared Breakfast Foods, Sugar Refining, Slaughtering and Meat Packing, Processed Cheese, Condensed Milk, Fruit and Vegetable Processing, and Flour Milling. By the end of the period the degree of concentration was somewhat greater in most industries, the sharpest increase having occurred in the Flour Milling industry. In industries such as Prepared Breakfast Foods and Fruit and Vegetable Processing, which differentiate products and sell under brand names, promotional activity was stepped up both directly by firms themselves or by advertising allowances paid to chain store buyers. In general, the firms in the food processing industries have found themselves faced with fewer and more powerful buyers. The effect of the increased pressure on them is evident in the increasingly complicated arrangements for allowances and discounts, and is hidden in the level of prices received by processors. Processors have increasingly entered into arrangements with producers which have the effect of ensuring their sources of supply.

Voluntary co-operative organizations play a very minor role in food retailing, handling only 2% of total sales. Although in some industries, e.g., dairy products, and in some parts of the country, e.g., Quebec, the proportion is much higher, in the country as a whole and for all food processing industries the contribution of farmers' co-operatives in processing is, and has remained at, about 7%. In the assembling of farm products, however, they have a more substantial part. Co-operatives perform 36% of the assembling of commodities other than grains, and approximately 50% of the latter commodities. The proportions have not changed significantly over the period. In the assembling of farm products the co-operative organization provides an alternative outlet for producers. To the extent that the co-operatives buy and sell at competitive prices, the payment of patronage dividends to their members tends to lessen the effective spread.

During recent years there has been much discussion about, and some activity in the organization of, producer marketing boards. We have referred to the

increasing concentration in food distribution and processing, and to the downward pressure exerted on food processors as a consequence of the integration of food wholesaling and retailing. It is clear from the evidence presented to the Commission that many farmers, perhaps most of them, are firmly convinced that downward pressure on farm markets resulting from concentration and integration in the marketing system tends to depress prices received at the farm. We do not think the assumption is an unreasonable one, although we are unable to provide incontrovertible proof of the extent of the effect on farm prices in general or in particular cases. The strong conviction of many farm producers leads them to the conclusion that concentration of buying must be met by concentration of selling through co-operatives or marketing boards. Because of the great variety of factors affecting prices at any time, we confess that we have not been able to detect any reduction in spread where marketing boards have been in operation, which could conclusively be attributed to the operations of the boards.

An attempt to determine the effect of price support programs on the price spreads for particular commodities meets with great difficulties. It is impossible to say what the spread would have been, in particular cases, in the absence of price support. In the case of butter, which has been subject to substantial support over the 10-year period, we conclude that support procedures have tended, on balance, to narrow the spread. While in some respects the effect might have been to widen the spread, we feel that this tendency has been offset by two factors. In the first place, the government has absorbed a significant part of the cost of storing butter, including administration costs. Second, the effect of certain specifications prescribed under the support program has been to limit the addition of expensive marketing services. For other commodities, including eggs, cheese, skimmed milk powder, apples, potatoes, cattle and hogs, price supports have been a factor during limited parts of the period only and could not have been an important factor in price spreads on these commodities in most years.

Part III. Gross Margins and Returns to Labour and Capital in Food Processing and Distribution[1]

Over the period 1948 to 1957, retailers' gross margins as a per cent of sales have increased, with the greatest increase occurring in chain store margins. Margins of grocery wholesalers, the main wholesale group, have declined as a per cent of sales; margins of processors have increased considerably. As a result, there has been a general increase in overall gross margins of food marketing firms.

The rate of increase in the gross margins of retailers has been relatively slow but continuous over the period. However, in the case of food processing industries the increase over the whole period was the result largely of a substantial increase in 1952 or 1953: margins rose little if any between 1949 and 1951; after 1953 they tended to remain fairly stable with some slight tendency to increase towards the end of the period.

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[1]In the accounts of business firms, we have the expenditure of the firm on raw materials and the revenue from the sale of the products; the difference between these is the "gross margin". We express it as a per cent of sales.

Gross margins expressed as a per cent of sales vary widely between industries. In 1957, the margin in the Prepared Breakfast Foods industry was 73% of sales; in Flour Milling, 24%; and in the food industries as a whole, 37%. When the margins in particular industries are broken down into component parts, wide differences are again evident. For example, in 1957, earnings of employees ranged from 51% of the margin in the Bakery Products industry to 21% in the Prepared Breakfast Foods industry. Packaging materials ranged from 43% of the margin in the Fruits and Vegetable Processing industry to 5% in Bakery Products. These differences are not surprising. Some industries use much labour, and others little labour, in relation to other expenses and invested capital. In some industries packaging materials are much more important than in others. The observed differences merely point to the difficulty of interpreting margins expressed as a per cent of sales.

We turn therefore to look at rates of return to labour and capital. Throughout the period wages in the Foods and Beverages industries have remained significantly below wage rates in all manufacturing industries. Within the food industries average wages are lowest in Canned and Preserved Fruits and Vegetables. The increase in weekly wages, 1949 to 1957, was of the order of 50% in all food industries, with somewhat larger rates of increase occurring in Bread and Other Bakery Products and Fruit and Vegetable Processing. For all food industries we estimate an increase of 26% in gross output per worker. Labour costs have therefore increased but, as earnings of employees as a proportion of the gross margin remained about the same, other costs and profits together have apparently increased to about the same extent as labour. We estimate that real earnings per employee in food marketing have increased about 23%, or at a rate of 2.6% per annum which was greater than the average rate of increase in real income per capita for the whole country (1.8%).

The information on rates of return on investment after taxes (which we will refer to as "profits") in incorporated businesses discloses both wide differences between firms in the same industry and significant differences in the level of returns between industries. For all retail trade, of which food retailing is only a part, the rate of profits exceeded 10% in the years 1949 to 1951 only. We do not have data on profits of independent food retailers, but profits of the chain food stores were substantially higher than profits for retailing generally (profits of the five major chains averaged not less than 15% in any year). Food wholesaling firms received lower average rates of return than those for wholesale firms generally, and their profits remained at a level below 10%. Similarly investment in Slaughtering and Meat Packing, Canned and Preserved Fruits and Vegetables, and Bakery Products earned less than 10% and less than the average for all manufacturing. Throughout the period profit rates were exceptionally high in the Breakfast Foods industry. The average for three major firms varied from 25% (1951) to 32% (1956). The general trend, in all industries and in the food industries themselves, was for profits to increase to a high in the early years of the period, and to decline in later years.

The rates of corporate income tax increased in the early part of the 1949 to 1957 period, and have remained at levels close to 50% since then.

Part IV. Food Expenditures, Farm Receipts and the "Marketing Bill"

Disposable income per person per year increased by about $450 from 1949 to 1958. Food expenditures per person advanced from $215 to $303, or 41%. The proportion of income spent on food declined from 24.4% to 22.8%. With increasing incomes there was some shift to more expensive foods and associated services. We calculate that food expenditures per person increased by 19% for this reason. Total food consumed per capita averaged 1,445 pounds in the three years 1948 to 1950, and 1,426 pounds in the years 1955 to 1957. There was, therefore, virtually no change in the total weight of food materials purchased per person. There was a decrease in the consumption of cereals and potatoes and little change in dairy products (excluding butter), fats and oils, sugar and starch. Consumption of beef, pork and poultry meats has been rising. The rapid increase in consumption of poultry meats illustrates the effect of a decline in relative prices.

Of the total food supply of the Canadian people, about four-fifths comes from domestic sources. Total expenditures on food of farm origin increased by $2,275 million between 1949 and 1958. Of this increase, $1,846 million was spent on food of Canadian origin and $429 million on imported food.

Between 1949 and 1958, cash receipts of farmers from sales of food for use in the domestic market increased by $495 million. From 1949 to 1951, 60% of the Canadian farmers' cash receipts came from the home market; from 1955 to 1958 almost 65% came from this source.

By deducting the cash receipts of Canadian farmers for the food parts of the raw materials sold by them from the total expenditures of Canadian consumers at retail on food of domestic origin, we arrive at our estimate of the aggregate marketing bill. The marketing bill increased from $900 million in 1949 to $2,243 million in 1958; the farm value as a per cent of retail value declined from 59% to 44%.

The increase in the marketing bill was 149%. The increase in the volume of food materials sold by farmers for use in the domestic market was 36%. The cost of marketing a basket of food, including the services associated with it, therefore, increased by 84% from 1949 to 1958.

The *kinds* of food in the basket have changed with some shift to more expensive foods. The effect of this change has been to raise the cost of the basket by about 7%. There are also more services associated with the basket of food materials. We estimate that these services increased in amount by about 28%, and that the increase in the cost per unit of services was about 43%.

The increase of 43% in the cost of a unit of marketing services represents the effect of increases in the prices of goods and services used in food marketing. Changes in wage rates and returns to capital are discussed in Part III.

We estimate that the transportation portion of the marketing bill increased from $109 million in 1949 to $245 million in 1957, i.e., more than doubled, while the volume of food material put through the marketing system increased by one-third. The overall increase in the aggregate transportation cost over the 1949 to 1957 period is attributable mainly to a rise of 69% in the cost of transportation per unit of farm food commodity handled.

In 1957 advertising represented about 5% of the marketing bill, or about double the proportion in 1949. Our studies indicate that, between 1949 and 1957, aggregate advertising expenditures increased from $21.4 million to $106.3 million, a rise of about 400%. Expenditures by processors increased from $15 million in 1949 to $85 million in 1957 and their proportion of the total increased steadily over the period, accounting for 80% in 1957. Within the retail segment, corporate chain expenditures on advertising have increased to $11 million, about 11% of all food advertising. The increase in total advertising expenditures has been due both to an increase in amount of advertising and to an increase in rates charged.

The cost of cold storage of farm products produced in Canada and bought by domestic consumers increased about 76% between 1949 and 1957. The cost of cold storage of frozen vegetables increased 445%, and was chiefly the result of a 414% increase in volume.

Packaging costs are tied up with sales promotion. Our estimate of the costs of packaging includes only the cost of materials and containers. We estimate an increase of 118% between 1949 and 1957. The amount of packaging per unit of farm product has increased. There has also been an increase in the prices of materials and containers.

Part V. Commodity Price Spreads

We have measured the absolute price spread and the "farmer's share of the consumer dollar" for 20 products of farm origin for each of the years 1949 to 1957 or 1958.

We have found it necessary to stress in Part V the very difficult problems of estimating a spread. Some of these are involved in defining a price spread. Other problems arise in the nature of the available statistics on prices and quantities, in connection with the treatment of "waste" and "by-products", in the discovery of appropriate conversion factors, and in adjusting for "time lag"[1].

The measures we offer are annual averages, although where possible and significant we give some attention to seasonal variations. Occasionally, and in reference to matters which were brought to our attention during the hearings, we comment on shorter-period variations and on local differences. However, the task of measuring the particular spreads related to individual units sold, or to individual farmers, or to particular markets in time or place is beyond the realm of possibility because of the magnitude of the task, even if the necessary data were available. The average spread we have measured does not apply to the particular transactions of any farmer or any group of farmers. Differences from the national annual averages do occur, both in time and place. These differences are due to a number of factors some of which could probably be isolated, but many of which would appear to be the result of isolated factors none of which is dominant. We realize that this explanation provides little comfort to the farmer who has sold at a price lower than his neighbour or less than if he had sold earlier or later. However, no better answer is possible under the conditions of particular markets as we know them.

[1]Readers particularly interested in these problems of price spread measurement are referred to Volume II, Part V.

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We have also discussed the problems of interpretation and comparison of absolute spreads and the "farmer's share of the consumer's dollar", and of the meaning of changes in either of these measures for a particular product. The particular measures are given in Tables 3 and 4 of Chapter 3 of this volume under the heading, "The Extent of the Spread".

There are two problems involved in the analysis and interpretation of price spreads of particular commodities which we wish to mention here. First, the figures we have used in our measurements represent in an aggregate way the results of the operations of many different processing and marketing firms. Each commodity price spread therefore represents a composite of costs which includes, in addition to direct or operating costs, some share of indirect or overhead costs such as taxes, depreciation, executive salaries, and of the profits or losses of each firm. Almost all of the firms handle more than one commodity, and there is a problem of allocation of overhead costs among the commodities handled. In Part III of Volume II we examine the relation between total profits and the gross margins of firms. Second, the commodity price spreads we have measured and the changes we have noted represent the net effect of many influences some of which have tended to increase, and others to decrease, the spread. In the summary of our findings, contained in this section, we refer only to the dominant influences we have been able to detect, without attempting to measure their effects.

Our price spread measurements reveal a general tendency for farm-retail spreads to widen between 1949 and 1957. The only exception was butter. The spread on broilers, frozen peas and frozen strawberries narrowed over the more recent period for which estimates for these commodities could be made. Over the 1949 to 1957 period, the spreads increased fastest on fresh apples (76.5%), beef (63.8%), wheat-into-bread (60.2%), canned tomatoes (48.1%), eggs (47.7%), wheat-into-flour (41.7%), fluid milk (38.2%), process cheese (32.5%) and pork (28.0%). The spreads tended to be at their widest either in 1952 or 1957, although the spreads were widest on a few commodities in 1951, 1953 and 1954. Generally, the price spreads widened from 1949 to 1952 and narrowed thereafter for two to four years. Some spreads began widening again in 1956, and then there was a fairly pronounced and general widening in 1957.

Among the 10 commodities for which we were able to calculate the 1958 farm-retail spreads, only on broilers and eggs was the spread narrower than in 1957. The spread was the same for butter and flour in 1957 and 1958. For the remaining six commodities, (beef, pork, fluid milk, evaporated whole milk, process cheese and bread) the spread continued to widen in 1958.

The farmer's shares, expressed as a per cent of the retail equivalent values of the 20 commodities, are tabulated in Table 4 in Chapter 3. This table reveals that there was a general tendency for the farm share to decline between 1949 and 1957. The only exceptions were canned peas, butter, canned strawberries and canned corn. Over a more recent period, however, the farm shares increased on frozen peas and frozen strawberries. Over the period as a whole, the declines in farm shares were slight on evaporated whole milk, canned peaches and sugar beets. Farm shares decreased the fastest on wheat-into-bread (45.7%), wheat-into-flour (30.2%), apples (22.1%), beef (21.3%), eggs (14.1%) and process cheese (12.9%).

Among the 10 commodities for which we were able to calculate the farmer's share of the retail equivalent value in 1958, the share increased over 1957 for six commodities (beef, butter, broilers, eggs, flour and bread), and continued to decrease for the remaining four commodities (pork, fluid milk, evaporated whole milk and process cheese).

The general level of farm shares usually indicates the extent of marketing services (such as storage, processing, packaging and transportation) attached to the commodity after it leaves the farmer's hands. Only on butter and eggs has the farm share normally exceeded 70% of the retail equivalent value. Fresh eggs require no processing, and butter processing and packaging are simple operations. At the other extreme, only on bread and frozen peas has the farm share normally been less than 20%, although it was around 20% on canned tomatoes, canned peas, canned corn and canned peaches—all of which are commodities that undergo extensive and expensive processing.

The farm share levels on frozen strawberries, apples, canned strawberries and process cheese were about 28%, 30%, 33% and 34% respectively. The farm shares on evaporated whole milk, flour and sugar beets were about 40%, 40% and 46%. The farm shares on chicken broilers, pork and beef averaged about 60%, 61% and 62% respectively.

In general, the widening of the spreads between 1949 and 1957 reflects an increase in food marketing services and in the prices of these services during the period. The particularly wide spreads in 1952 resulted from the fall in prices, especially farm prices, in 1952, after a period of rising prices, especially farm prices.

The price spread increased fastest on apples during our period of study. Several influences were at work here—longer and more expensive storage (both cold and controlled-atmosphere storage); higher packing-house costs, due to increased wages; a multiplicity of containers, several of which are increasingly elaborate; increased freight rates and more advertising. Wholesale and retail margins increased.

The fact that the spread on beef increased so fast between 1949 and 1957 is not especially significant, because these two years are not really comparable in this case. Cattle and beef are subject to cyclical variation in production and prices, and 1949 and 1957 were not at comparable stages of these cycles. The year 1949 was on the upswing phase of the price cycle, while 1957 was at the bottom of the cycle. To obtain a year comparable to 1949, we would have to wait until about 1961, by which time the beef price spread will likely have narrowed again compared to 1957. In saying that these long cyclical swings are the major influence on beef spreads, we do not deny that there have also been additional services attached to this product which could explain some of the widening of the spread between 1949 and 1957. We are thinking of additional services such as cutting smaller pieces, pretrimming and prepackaging, and of rising costs of materials, labour, transportation, etc.

Pork is subject to shorter cyclical variations in production and prices than beef, but the main factor causing a widening of the pork price spread over the last decade seems to have been the increased amount of processing and packaging, particularly for the smoked or cooked pork products.

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Among major dairy products, the farm-retail spread increased fastest for fluid milk. Increased processing and delivery costs, particularly payrolls and containers, appear to have been the main reasons for the widening spread. The widening in the farm-retail spread for evaporated whole milk was moderate, and took place largely at the retail level. The widening spread for cheese was due mainly to the addition of more processing services, such as cutting into smaller sizes or slices, and to more packaging and advertising. Although the farm-retail spread on butter actually narrowed a little between 1949 and 1957, the retail component widened. Butter processing and packaging have continued to be simple operations. The Federal Government has absorbed some of the butter marketing costs through its price support operations. The keen competition of margarine retarded rising retail prices of butter. A small markup on butter seems to be traditional.

Broilers are one of the few farm food products which showed a well-pronounced downward trend in both retail and farm prices. Also (more remarkably) the farm-retail spread narrowed. This was a result of spectacular technological and commercial developments and expansion in the broiler industry during our period of study. In contrast, the price spread on eggs widened substantially during the last decade. This was due mainly to increasing costs of grading and wholesaling.

Although wheat prices declined over the decade, flour and bread prices increased. The price spread on wheat-into-flour widened substantially during the decade, but not nearly as fast as the spread on wheat-into-bread. In other words, baking costs rose faster than milling costs. Part of the widening of the miller's spread can be explained by the increased amount of consumer-size packaging performed. The combined wholesale-retail markup on flour increased substantially. With bread prices rising and wheat prices falling during the period, the wheat farmer's share of the price of bread in 1957 was not much more than half of what it was in 1949. The farm-retail spread on bread increased by 60% over the nine years. The increase took place partly in the retail margin, but mainly in the bakery-wholesale margin. The main reasons were higher labour, packaging, promotional and delivery expenses.

The farm-retail spread on potatoes widened during the last decade, because of higher labour costs of packaging, rising transportation costs, and constant per cent markups at wholesale and retail on a rising farm price. The spread on canned tomatoes widened mainly because of increased processing costs. In addition, canned tomatoes were imported from the United States in increasing quantities over the decade, and the spread was widest in the years of heavy imports. The moderate increase in the spread on canned peas can be attributed to increased wholesaling and retailing charges. No definite upward or downward trend in the spread on canned corn was apparent during our period. The supply and demand for canned peas and corn were in more stable adjustment than for canned tomatoes.

The spread on frozen peas, in contrast with canned peas, narrowed conspicuously. The same was true for frozen strawberries, in contrast with canned strawberries for which the spread increased moderately over the decade. The supply of frozen vegetables and fruit has been increasing rapidly. Increased freezer space

in retail outlets and keen competition from other frozen foods exerted a downward pressure on prices. Handling and freezing operations became more mechanized, thereby lowering production costs. The increase in the spread on canned strawberries took place almost entirely in the combined wholesale-retail margin.

The spread on canned peaches, as with canned corn, did not exhibit any definite trend towards widening or narrowing. The same holds for sugar beets processed into sugar in the prairie region.

CHAPTER 3

CONCLUSIONS AND RECOMMENDATIONS, AGRICULTURE

1. The Extent of the Spread

The Commission was instructed to

"inquire into the extent . . . of the spread between the prices received by producers of food products of agricultural and fisheries origin and the prices paid by consumers therefor".

A. *Changes in Price Spreads, 1949 to 1958*

In making comparisons over time, the selection of the period is important. In the Introduction we referred to the reasons which led us to select the period 1949 to 1958 and in Volume II, Part I we point out that the choice of 1949 as the base year in the calculation of indexes did not imply a fair relationship between prices in that year. We deal further with this problem in the section on "Fair and Reasonable" or "Excessive" Spreads. In this section we merely record the measurements we have been able to make or to bring together, and note the observed changes in the years from 1949 to 1958.

In Part I we compare the Retail Price Index of Food of a Class or Kind Produced in Canada and the Farm Price Index based on Domestic Market Disappearance, both on the base 1949=100. We reproduce the comparison here in Chart 1. In 1958 the Farm Price Index was 99.9; the Retail Price Index stood at 120.2. The difference between the indexes reflects a widening of the general spread between prices received by producers and prices paid by consumers from 1949 to 1958. The indexes and the chart point to a sharp increase in the general spread in the years 1952 and 1953, which coincided with a rapid decline in the general level of farm prices in these two years.

In Volume II, Part III we report on the changes in the gross margins, expressed as a per cent of sales, of food retailers, wholesalers, and processors. We include Tables 1 and 2 here, as part of our conclusions. Our comments on the data are found in Part III.

In Volume II, Part IV we present our measure of the "Marketing Bill". We notice that, when population increased 27%, the marketing bill increased from $900 million in 1949 to $2,243 million in 1958, or 149%. The Farm Value of Raw Food Materials increased from $1,275 million to $1,777 million, or 39%. Aggregate Retail Value increased from $2,175 million to $4,020 million, or 85%. Farm value as a per cent of retail value decreased from 59% to 44%. The farmers' share of consumer expenditures remained fairly stable in 1949, 1950 and 1951. The main declines occurred between 1951 (58%) and 1953 (50%).

CHART 1

RETAIL PRICE INDEX FOR FOOD OF A CLASS OR KIND PRODUCED IN CANADA AND FARM PRICE INDEX BASED ON DOMESTIC MARKET DISAPPEARANCE.

Constant Weights 1949=100

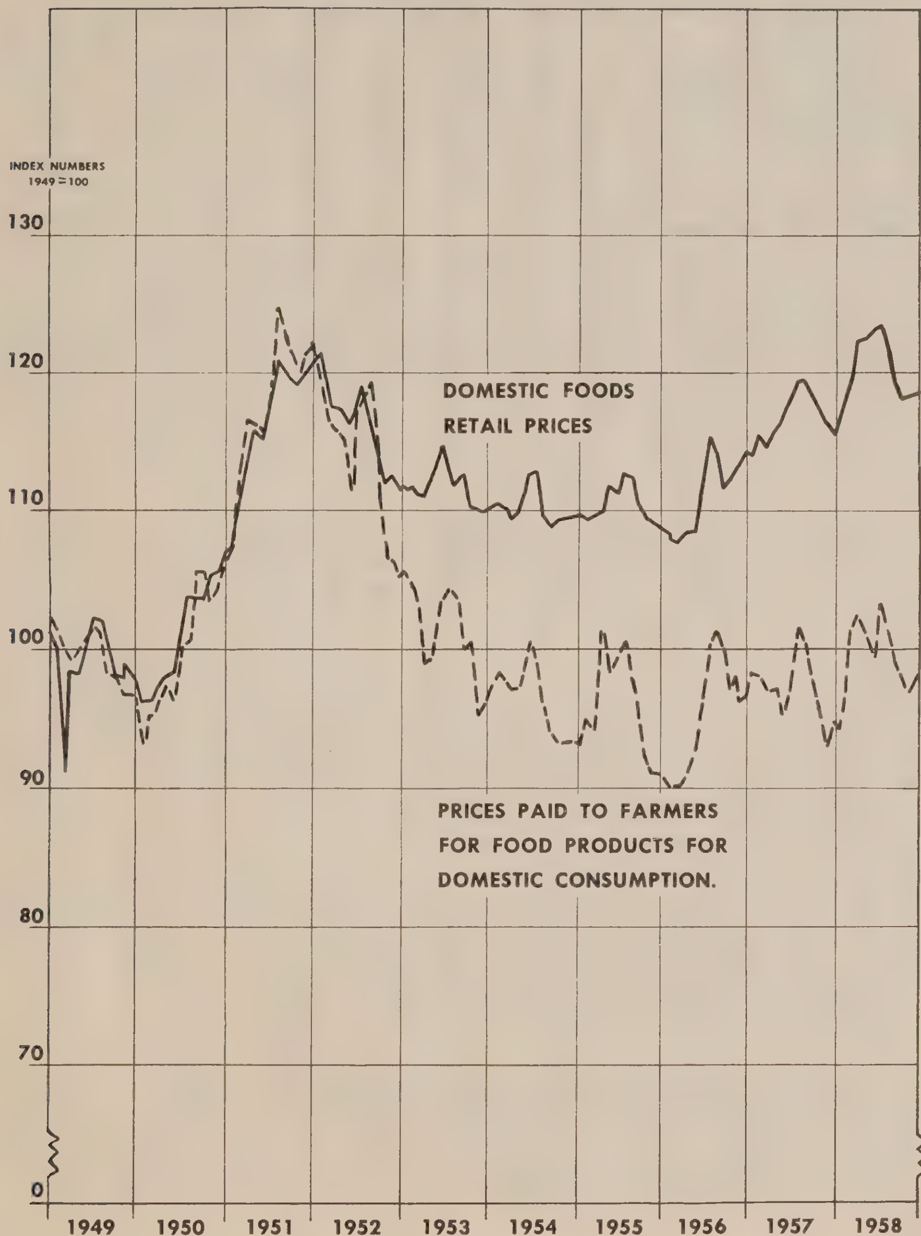

Table 1—"Gross Margins", Food Retailing and Wholesaling

Group	1948	1949	1950	1951	1952	1953	1954	1955	1956	1957
					Per Cent of Sales					
Retailers[a]										
Chain Combination Stores[b]	....	15.6	....	15.8	....	16.5	....	16.5	....	17.4
Chain Grocery Stores	....	16.0	....	15.5	....	15.0	....	16.0	....	15.0
Chain Meat Stores	....	17.6	....	15.8	....	n.a.	....	18.8	....	20.2
Independent Combination Stores	14.6	....	14.9	....	14.5	....	15.1	....	15.4	...
Independent Grocery Stores	14.0	....	14.4	....	13.9	....	14.4	....	14.8	....
Independent Meat Markets	16.6	....	16.1	....	17.8	....	18.9	....	19.6	....
Independent Fruit and Vegetable Stores	17.5	....	17.5	....	17.7	....	18.4	....	19.4	....
Wholesalers[a]										
Grocery Wholesalers	....	7.7	....	8.0	....	7.7	....	7.2	....	6.8
Fruit and Vegetable Wholesalers	....	10.6	....	11.3	....	11.8	....	11.5	....	12.1

[a] We have shown here the results for all of the firms reporting. For the independent retail stores and the wholesalers, the results are affected to some extent by the fact that different firms report in different years, but the general trend is not distorted.

[b] These are the average results for chain combination organizations of all sizes. The changes differ for firms in different size groups: for those with sales under $10 million, gross margins have not increased over the period; all of the increase has been accounted for by the firms with sales of $10 million or over.

SOURCE: D. B. S. *Operating Results*.

Table 2—"Gross Margins",[a] Food Processing

Group	1949	1950	1951	1952	1953	1954	1955	1956	1957
					Per Cent of Sales				
Foods and Beverages Industry[b]	30.4	30.7	30.2	34.1	35.0	35.7	37.4	36.8	36.6
Meat Products	18.1	17.0	16.2	21.9	21.7	22.7	25.8	24.4	23.9
Dairy Products	27.5	29.6	28.2	30.2	30.7	31.2	31.4	31.7	29.6
Bakery Products	53.1	52.2	53.0	55.5	56.2	55.5	56.1	54.5	55.2
Flour Mills	16.9	19.7	20.8	20.3	21.2	22.1	23.0	22.0	23.8
Fruit and Vegetable Preparations	63.3	63.5	63.7	65.8	64.8	63.5	64.1	63.6	61.1
Sugar Refineries	27.0	27.9	26.3	32.0	37.3	36.2	31.7	28.2	31.3
Breakfast Foods	66.0	67.7	67.4	70.7	73.6	75.4	76.5	74.9	73.1

[a] The "gross margin" was obtained by taking the cost at plant of materials used (excluding packaging materials and containers) as a per cent of selling value of factory shipments, the residual being the gross margin. To the extent that materials other than raw materials are included, this procedure results in an understatement of the gross margin.

[b] Excluding beverages, animal feeds, confectionery and fish processing.

SOURCE: Computed from D. B. S. reports on the Foods and Beverages industry.

Details of the studies of price spreads of particular commodities are contained in Volume II, Part V from which Tables 3 and 4 are taken. Table 3 contains our annual measurements of the farm-retail price spreads for each of 20 farm commodities. We have discussed in Chapter 2 of this volume the changes that have occurred in commodity price spreads and the explanation of these changes.

Table 3—Summary of Farm-Retail Spreads for 20 Commodities, Canada, 1949 to 1957[a]

Commodities and Commodity Groups	Farm Unit Basis of Calculation	1949	1950	1951	1952	1953	1954	1955	1956	1957
A. Livestock and Meats—										
1. Beef	¢/lb. live	8.0	9.0	12.3	14.1	12.5	10.8	10.6	11.6	13.1
2. Pork	¢/lb. carcass	14.3	14.5	15.9	16.1	18.6	19.7	16.3	17.1	18.3
B. Dairy Products—										
3. Fluid Milk	$/100 lb.	2.85	2.98	3.30	3.55	3.53	3.57	3.61	3.66	3.94
4. Evaporated Whole Milk	$/100 lb.	3.75	3.74	3.91	4.37	4.16	4.18	4.05	3.85	4.02
5. Process Cheese	$/100 lb. milk	3.75	3.93	4.14	5.02	4.84	4.72	4.81	4.68	4.97
6. Butter	¢/lb. butterfat	18.7	17.4	17.3	19.0	18.1	17.5	18.0	17.7	18.4
C. Poultry and Eggs—										
7. Chicken Broilers	¢/lb. live	n.a.[b]	n.a.	n.a.	n.a.	17.3	16.9	15.2	15.5	16.1
8. Eggs, A-Large	¢/doz.	11.1	12.1	13.7	14.4	15.3	14.6	14.9	15.2	16.4
D. Cereals & Bakery Products—										
9. Wheat-flour	$/bu.	1.56	1.69	1.81	1.91	1.92	2.12	1.94	2.02	2.21
10. Wheat-bread	$/bu.	5.03	5.32	6.11	6.48	6.53	7.01	6.97	7.47	8.06
E. Vegetables—										
11. Potatoes	$/100 lb.	1.71	1.46	1.77	2.01	1.65	2.07	2.20	2.16	2.46
12. Canned Tomatoes	$/ton	108.	94.	127.	158.	128.	111.	143.	149.	160.
13. Canned Peas	$/ton	327.	326.	346.	376.	389.	384.	380.	366.	378.
14. Frozen Peas	$/ton	n.a.	n.a.	n.a.	649.	635.	559.	509.	502.	471.
15. Canned Corn	$/ton	97.	91.	95.	99.	91.	87.	94.	92.	105.
F. Fruit—										
16. Fresh Apples	$/bu.	2.38	2.77	3.15	3.58	3.89	4.21	3.82	3.90	4.20
17. Canned Strawberries	¢/qt.	39.6	40.7	39.1	47.3	43.3	47.6	45.5	43.1	45.8
18. Frozen Strawberries	¢/qt.	n.a.	n.a.	n.a.	60.7	59.4	55.6	51.3	49.8	47.4
19. Canned Peaches	¢/lb.	17.0	16.7	18.2	18.0	16.6	16.9	17.5	17.6	19.7
G. Special Products—										
20. Sugar Beets[c]	$/ton	15.56	20.35	16.99	21.00	17.02	14.18	16.36	19.77	16.01

[a] Based on individual commodity price spread studies summarized in Volume II, Part V, Section 7. Calendar years except for potatoes, apples and sugar beets which are crop years beginning with years shown. Maple syrup excluded because retail prices not available.

[b] n.a. = not available

[c] Sugar beets are for Prairie region only.

B. *Comparison of Farm Shares, 1957*

The data on the farmer's share of the retail value of each of the 20 commodities in 1957 are included in Table 4. These data make possible the comparison of farm shares of different products. The discussion of this is found in Chapter 2.

2. The Causes of the Spread

The Commission was instructed to

> *"inquire into . . . the causes of the spread between the prices received by producers of food products of agricultural and fisheries origin and the prices paid by consumers therefor".*

Chart 1 and the indexes it represents lead us to discuss, in general terms, the causes as we see them of the widening of the general spread which has occurred.

Briefly, our view is that the decline in *farm prices* which began in 1952 was due in large part to the pressure of agricultural supplies and to the conditions experienced in export markets. The buyers of farm products at the farm do not pay any more for them than they must in order to get the quantities they can sell. For many farm products the maximum price the domestic buyer has to pay is governed by export or import prices. The Canadian milling firm does not have to pay any more for No. 1 Northern at Fort William than does the Hong Kong importer. The wholesale firm in British Columbia does not have to pay more for apples offered for sale by the British Columbia Fruit Board than the price at which it can obtain Washington apples of a comparable quality. During the period, prices of livestock rose above the level of prices in the United States at certain times and fell below them at others. These differences were possible only to the extent of conditions affecting the movement of livestock and livestock products across the border.

The pressure of agricultural supplies was induced by technical innovations applicable to agriculture and by rising prices prior to 1951. Because of the structure of the farm industry, there was an expansion of output with a fall in prices. This is the characteristic response of an industry with the structure of agriculture in a situation in which prices are already at profitable levels, and opportunities to increase efficiency occur. Prices to all buyers fall.

The prices for farm products were influenced by three other factors as well. First, increasing population and incomes of domestic consumers must have been a factor tending to support prices at the farm.[1] A strong and expanding consumer demand for food materials helped to offset the effects of pressure of supplies. Second, the Government of Canada pursued price support policies which have had similar effects.[2] Third, the structure of the food marketing system in Canada must have had some effect on the trend of farm prices. No precise measurement is possible of the effects on farm prices of structure in the food industries. We have

[1]See Volume II, Part IV for discussion of the proportion of farm products sold on the domestic market.

[2]See Volume II, Part II for discussion of the effects of government support policies.

Table 4—Summary of Farm Share of Retail Price for 20 Commodities, Canada, 1949 to 1957[a]

Commodities and Commodity Groups	1949	1950	1951	1952	1953	1954	1955	1956	1957
					Per Cent				
A. Livestock and Meats—									
1. Beef	68.5	70.6	69.3	60.7	56.9	59.4	60.4	57.5	53.9
2. Pork	65.9	64.7	65.6	60.0	59.3	58.9	57.9	57.3	59.7
B. Dairy Products—									
3. Fluid Milk	57.5	56.7	55.3	55.3	55.5	55.0	54.5	54.1	53.5
4. Evaporated Whole Milk	41.8	41.1	44.1	38.7	37.9	37.6	38.4	40.2	41.1
5. Process Cheese	39.5	36.2	39.8	30.1	30.6	31.8	31.1	34.5	34.4
6. Butter	76.3	76.4	79.1	76.5	77.2	77.6	77.0	77.2	77.1
C. Poultry and Eggs—									
7. Chicken Broilers	n.a.[b]	n.a.	n.a.	n.a.	62.7	58.8	63.6	59.7	57.5
8. Eggs, A-Large	81.5	78.0	80.0	74.9	76.8	73.1	75.4	74.7	70.0
D. Cereals and Bakery Products—									
9. Wheat-flour	49.0	45.5	42.4	39.2	40.6	35.2	38.2	37.5	34.2
10. Wheat-bread	23.0	21.0	17.9	16.0	16.7	14.1	14.6	13.9	12.5
E. Vegetables—									
11. Potatoes	47.2	47.1	67.5	57.8	43.1	54.9	45.0	47.2	41.6
12. Canned Tomatoes	20.0	21.3	18.5	18.2	22.1	23.3	19.3	18.6	18.3
13. Canned Peas	19.3	18.5	19.9	20.7	19.8	20.0	20.2	21.1	20.3
14. Frozen Peas	n.a.	n.a.	n.a.	13.1	13.1	14.7	16.1	16.1	16.6
15. Canned Corn	19.8	18.0	18.8	20.8	22.2	23.0	21.7	22.0	19.8
F. Fruit—									
16. Fresh Apples	32.6	30.9	31.2	35.5	34.7	28.8	20.1	30.7	25.4
17. Canned Strawberries	32.8	34.3	37.9	30.5	30.1	30.5	33.6	35.5	32.9
18. Frozen Strawberries	n.a.	n.a.	n.a.	22.9	23.8	26.9	31.0	32.2	32.2
19. Canned Peaches	21.3	21.2	20.2	20.4	21.3	21.0	21.1	21.8	20.9
G. Special Products—									
20. Sugar Beets[c]	45.7	45.5	47.1	42.1	44.1	46.7	46.3	47.0	44.8

[a] Based on individual commodity price spread studies summarized in Volume II, Part V, Section 7. Calendar years except for potatoes, apples and sugar beets which are crop years beginning with years shown. Maple syrup excluded because retail prices not available.

[b] n.a. = not available

[c] Sugar beets are for Prairie region only.

had something to say about the downward pressures on prices exerted by the growing integration and concentration in food wholesaling and retailing and the structure of other parts of the food marketing system is such as to lead us to believe that similar or the same pressures may be exerted back to the farm market. We think that farm prices would have fallen less than they did, had the structure of the food industries been more like the structure of agriculture.

Briefly, our view is that the tendency for *retail food prices* to move upward can be attributed primarily to increasing population and incomes, i.e., to expanding consumer demand. Advancing prices per unit of food materials have been made possible by increasing demand and there is nothing in law to require sellers to take less than the maximum price they can get. The prices of many of the services required or provided by the food industries are determined largely by domestic conditions. For example, construction of new stores must take place in Canada, and, although capital, "know how" and labour may be attracted to work in Canada in the construction industry, or move in the reverse direction, prices of construction services in Canada can diverge appreciably from those in other parts of the world.

We are convinced that the structure of the food marketing industries has also contributed to advancing prices to consumers although again we are unable to measure the effect of structure. The falling prices the food industries paid for farm materials and the higher prices they obtained from consumers confronted the industries with circumstances conducive to profitable operation and expansion. It has been possible for the food industries to associate with the food materials many services which have added to the consumer price per unit of material. The structure of the food industries has been a contributing factor.

Services Associated with Food Materials

From representations made to us, we gather that there is a tendency to think of the price received by the farmer and the price paid by the consumer as representing payment for identical things. Such a misconception inevitably leads to confusion in interpreting the difference between these two prices. It is true that in some instances the units in which the two prices are expressed are similar, if not identical. But these instances are relatively rare. Part V of our report cites the substantial difficulties involved in finding (or estimating) a price at retail which corresponds to a price received by the farmer, i.e., which relates to a comparable unit at the farm. But even if comparable physical units can be found, they are comparable only in physical terms. The egg which the consumer buys as food is the egg which the farmer sold plus services provided in the marketing system. Between the farm and the consumer there have become associated with it many services so that the price paid by the consumer is a price for the egg at the farm plus prices for the various services rendered in the marketing system, all of these expressed per egg, i.e., per physical unit of material.

In considering the services of the marketing system which become associated with food materials and which are part of an expanding material standard of living, it is useful to distinguish between two types: first, those which are related specifically to the one commodity, e.g., the packaging, transporting, and perhaps refrigeration of the egg; and second, those which are general to food merchandising and therefore to some extent become attached to all food commodities, e.g., the provision of

attractive stores with various conveniences offered to customers. Services of the first type tend to be concentrated at the end of the marketing system close to the producer; the general services are a feature of the marketing system closer to the consumer. The farmer sells particular commodities; the consumer buys food.

A further useful distinction can be drawn between three categories of service. First, there are services which are related to the convenience of consumers and to the patterns of behaviour of consumers. When these behaviour patterns change for any reason, the adjustment of the food industries to these changes is a modification of services conditioned by consumer behaviour. We call attention to the evolution which has occurred in food retailing with the growth of the supermarket and of all the facilities that go with it. This development clearly represents an adjustment to increased incomes and changing patterns of urban living. The new facilities add to merchandising costs per unit of material, but consumers evidently have been willing to pay the price. There appears to have been a ready acceptance of these added services by consumers. Second, there are services in the processing of food materials which are made possible by technological developments and which are reflected in the form or quality of the food materials. We expect that the food processing industries are alert to the gains to consumers from improved techniques and are constantly in search of modifications which will appeal to consumers. Changes of this kind, when they become established, reflect improved service to consumers which may be offered only at some added cost. We refer to the introduction of costly new techniques, e.g., food freezing, which have contributed to increased availability and improved quality of food materials. These developments have clearly met with consumers' acceptance and may be judged to have brought substantial benefits to consumers. Third, food marketing firms engage in various forms of promotional activities, e.g., packaging, advertising, "give-aways" and contests. When continued, the costs of these activities are paid for by consumers in the final price, and they can be represented as additional services which prove acceptable to consumers. We have more to say of these activities in later sections. Here we note merely that some of these devices, or some aspects of them, were the subject of submissions to us by representatives of consumers and others. It is evident that many consumers distinguish some aspects of these services from other services that are offered by merchandisers and do not view them with the same enthusiasm.

In the general sense, the price spread represents the payment for or returns to all the services rendered in the marketing system, per unit of the physical food material. An increase in the spread reflects either, or both, an increase in the returns per unit of service supplied or an increase in the services associated with each unit of food material. It is clear that the increase in the general spread that has occurred in recent years contains something of both of these elements. It can, therefore, be said that the increased spread reflects higher prices for marketing services and more marketing services.

In Volume II, Part IV we report on our attempt to measure the relative significance of these two factors. We have estimated that contributing to the increase in the "marketing bill" of 149% was a 43% increase in the per-unit cost of the non-food supplies and services used in the food marketing system, and a 28% increase in the amount of services per unit of food. (There was also an

increase of 36% in the total volume of food sold off farms for domestic consumption.) These estimates give some indication of the relative magnitude of the two factors. We point out that we do not have available to us an index of prices of supplies and services used in the food industries. If such an index had been constructed and maintained during the period, we think it would have shown an increase of about 43%.

Why Have the Prices of Food Marketing Services Increased?

The prices of food marketing services have increased at a time when the prices of goods and services generally have been rising. The food industries comprising the food marketing system represent a substantial segment of the national economy, but not, we think, large enough to attribute the general rise in prices wholly or even mainly to activities within the food segment. We also note in the report that new corporate investment in the food industries (except food retailing) has not expanded at as rapid a rate as has corporate investment generally, i.e., in other parts of the economy and our analysis of wages indicates that wages in the food industries have not advanced more rapidly than wages elsewhere. Although the food industries have been advantageously placed by the decline in the prices of their materials, we conclude that they have not set the pace in establishing higher prices for services. Rather, it seems to us that they have mainly accommodated themselves to changes initiated elsewhere, and bearing on them through consumer demand and the competition for services required both by them and by other parts of the economy. The food industries have paid higher wages for labour and higher prices for supplies and services because they have had to meet the competition or attempt to parallel the conditions of other industries; they have been able to advance their selling prices per unit of food material to cover these increased service costs because of increased consumer demand.

In Part IV we refer to the costs of transportation, advertising, cold storage, and packaging materials in the marketing bill. The prices of these services have increased, but the services are not peculiar to nor are they predominantly provided to the food industries. Transportation rates can hardly be said to be determined by the demand from the food industries, although the movement of farm products is a substantial part of freight traffic of the public carriers. Packaging materials used in providing containers for food products are also used for many other purposes and the customers of the advertising media are not found only in the food industries. Cold storage facilities are perhaps used mainly for the preservation of food materials but in this case rates appear to have been held down by government subsidies for new space. Undoubtedly the demand of the food industries has contributed to, but has been only a part of, the demand which has supported increasing prices for non-food supplies and services used in these industries.

It is our view that, to the extent that rising retail food prices reflect an increase in prices for services supplied by the food marketing system, the causes are to be found in those factors which are responsible for the general rise in prices.

Why Have More Services been Attached to Food Materials?

Since 1951, the food industries have procured their farm materials at reduced prices but prices paid by consumers have advanced. Because farm prices have actually declined, it is evident that the increase in prices at retail is not due to an increase in the price of the farm material. It represents, in addition to the higher prices paid for marketing services, payment for additional services which have been associated with, or attached to, the farm material. Why have these additional services been added in this period? The immediate answer appears to be that consumers have paid for them. As we see it, because of the factors making for higher consumer incomes and the factors making for lower farm material prices, the food industries have found themselves in a favourable position to seek out services to which the consumer dollar could be attracted. Consumers have secured these added services partly because low farm prices contributed to rising consumers' real incomes, and partly because the food industries, which were able to obtain their materials at reduced prices, competed for the consumers' patronage on the basis of a variety of services.

We do not wish in any way to imply that the food industries should not, or should not be expected to, offer to consumers new services associated with food purchases. However, we are obliged to express our concern about the tendency, which we believe to be evident and operative in the period we have studied, for the firms in the food industries to be more active in offering consumers added services than lower prices. We are satisfied that this condition is one of the causes of the increase in price spreads.

In a period of increasing population and real incomes, and therefore of expanding markets for final food products, there should be opportunities for increased efficiency in the food processing industries and in the distribution trades. Such efficiencies should be expected to result in gains to consumers generally through their effects on prices. The effects have not been noticeable during the period. We do not mean by this that prices might not have been higher than they have been, including the cost of the additional services that have been added, if there had been no gain in efficiency. What does seem to us to have happened is that such gains as have occurred from increasing efficiency due to new technology and increased scale of operation have been largely applied to the provision of services, including an increasing variety of food products.

Pre-occupation of Firms with Service Competition

Our study of the promotional activities of firms in the food industries leads us to the conclusion that more attention could have been given to getting prices down. Given the structure of the industries, there is lacking the compulsive mechanism which, in agriculture, translates increased efficiency into lower prices. Where reduced retail food prices are offered, they tend to be referred to as "specials". The implication is that the circumstances are unusual, and that prices may be restored later. Indeed the implication is a correct one. The objective of the retailer and of the processor-supplier generally is not to undermine the customer's acceptance of a customary price. Consequently, usually on the initiative of the processor, packages are marked "10c off"; premium coupons providing for

rebates are distributed; and other premiums are inserted in the packages. The term "value" has become more important in the vocabulary of the merchandiser. The objectives are to persuade the buyer that at given prices the firm's product offers more for the same money, and to effect changes which offer more at the same price.

The reasons for the pre-occupation of firms in the food industries with service competition rather than price competition are to be found in the particular conditions of the recent period and in the structure of the industries.

In the recent period when farm materials could be obtained at declining prices and when consumer demand was increasing, there was, as we point out, no need to pay higher prices for materials and no incentive to reduce final consumers' prices. In this period food marketing was profitable,[1] and over most of the period advancing prices met with little consumer resistance. Firms could, and did, compete to maintain or expand their share of the market without having to be much concerned about the effect on prices; costs of services undertaken to expand sales could be covered in rising prices. Final prices of food materials plus services moved up. Under other circumstances than have prevailed the limited effect of such practices on sales would have been more clearly evident.

The shift in the emphasis towards competition in services is characteristic of industries dominated by a few large firms or where the product is of a kind that can be differentiated in the minds of consumers. We recognize that price is not wholly eliminated from the competitive strategy of the large firms. Firms do offer "specials", sporadic "price wars" break out between them, and they compare one another's prices. However, they tend to compete more by incurring costs of additional services which may be withdrawn if introduced by competitors, and which for this, or other reasons, no longer prove effective. In a period of rising demand, the costs of these services can be passed on to the buyer.

The Effects of Service Competition

Between 1949 and 1958, farm prices—the prices of the raw materials for the food industries—were practically unchanged, but the retail food price index increased 20%. The farm value as a per cent of retail value dropped from 59% to 44%. In our analysis of the marketing bill (Volume II, Part IV), we estimate that the prices of supplies and services used in the marketing of food products increased 43% and that there were 28% more services introduced in the marketing system per unit of food.

We believe there is reason to be concerned about the continued increase in prices to consumers. If there is, then there must be concern about the factors associated with food prices, including general increases in costs and the nature of the additional services for which consumers are paying. We have referred to the shift in the emphasis towards competition in services. We believe that, if a continued increase in the general level of retail prices is to be prevented, there must be an increasing disposition on the part of those who sell commodities to search for ways of reducing prices. By this we mean a shift in emphasis away from competition in services in so far as services are a substitute for price reductions.

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[1]See Volume II, Part III for our discussion of profits in the food industries.

It is argued that promotional services do result in price reductions, that they attract patronage, increase the volume of business of the firms, reduce the cost per unit handled, and lead to price reductions. The evidence we present in Part IV demonstrates that over the past 10 years the volume of food materials consumed in Canada has not increased any more than the increase in population. It is evident, therefore, that the promotional effort expended by firms in the food industries—processors, wholesalers and retailers—has had no appreciable effect on the volume of consumption of food per person. It is a reasonable expectation that any increase in food consumption in Canada in the next 10 years will be of the same order as the increase in population. What then is accomplished by the considerable amount of effort expended in food promotion?

The evidence we present in Part II indicates that the chain organizations,[1] which were already large in 1949, have expanded relatively rapidly, and have captured a larger share of the growing market. In the same part we point out, with reference to the chain stores, that in food merchandising increasing size may bring about economies by reduction of overhead costs per unit of sales, and by specialization of functions within the organization. We have found it impossible to determine in the case of the chains how far the enlarged operations in the past 10 years have by themselves affected their unit costs. We expect that, with growing population, the food market will expand in the next 10 years. We gather that the objective of each large retailing organization is to maintain or to expand its "share of the market". We do not know what effect there might be on costs if each were to achieve its objective.

The reasons why it is impossible to determine how far the enlarged operations of the chains have contributed to lower costs in the recent past are as complex as the factors entering into costs and prices. We know that the unit costs of operation of chain stores have increased steadily in the last 10 years. In so far as the increased scale of operations of the chains has led to increased efficiency in food distribution, this has been obscured by the increases in prices of the non-food supplies and services used in food marketing, by the additional services associated with food, and perhaps by an increase in the proportion of non-food sales.

We do not think that increase in size can itself be taken as evidence of increased efficiency. There are too many factors other than the capacity to reduce costs—already large size, capacity to secure capital for expansion, the local monopoly provided by shopping centres, and zoning bylaws—to which increase in size can be attributed. The sheer desire for size and the concept of the share of the market and all it implies may have been potent factors in the expanding scale of the corporate chains.[2]

[1]We discuss the problem in terms of the retail chain organizations. However, the analysis would apply equally to the effects of promotional effort in the processing industries, in which increasing concentration has occurred in the last 10 years.

[2]In 1949 the overall gross margin for the grocery wholesaler and independent combination store was 21.2% of retail sales in comparison to the 15.6% margin for the chain combination store. By 1957, in the former situation, the margin had remained the same at 21.2%, while the margin of chain combination stores had increased to 17.4%. We recognize the difficulties of drawing general conclusions from the data. Our purpose in reproducing them is to point out that they provide no evidence that the chains have increased relatively their efficiency.

There are evidently economies of scale in non-price promotion which have no relation to efficiency in food marketing. We refer to this in our discussion of the promotional techniques of the chains in Part II. The large firm may be able to get lower rates for devices designed to make it larger, and in this way gain a substantial advantage over its smaller competitors. We think that the extensive use of non-price promotional devices by the large chains and processors has been a major reason why they have expanded at the expense of the smaller firms.

We are less convinced that promotional activities among the large chains have had much effect on their volume of business in relation to one another. In the first place, at least in the earlier part of the period, the actual competition between the large corporate chains was less than might be supposed. They had their own principal territories and, where these territories overlapped, they were careful in the selection of sites so as to avoid close competition in selling. (We agree that their competition in buying has been continuously vigorous.) More lately, when they have been expanding more into one another's territories, rigorous rivalry in selling has more frequently broken out. Secondly, we think it self-evident that, if promotional devices are used on the same scale and equally effectively among large rivals, they cancel out in their effect on the relative position of the rivals. We have comments on this tendency in our description, in Part II, of the practice of promotion by the corporate chains. We can agree that in a group of five firms, if one adopts promotional plans while the others do not, that one firm will expand more rapidly, and its additional revenues will more than cover its additional expenditures. We can also agree that, if one firm employs more effective devices than the others, it will secure patronage at the expense of the others. What we cannot believe is that, if all five firms use equally effective devices in the same degree, there can be any net advantage to any one of them over the others. It seems to us inevitable that, among the large firms in food merchandising, a substantial part of the promotional expenditures must be dissipated in competitive rivalry.

We recognize that promotional plans among the large firms are in a constant state of flux, each firm endeavouring to out-manoeuvre its rivals in the kind of device it uses or in the weight given to particular devices in its total strategy. At one time one firm may be relatively successful; at another time it falls behind its rivals. There are temporary gains and losses in the process. We are unable to determine whether over the years certain firms have been more successful than others. We doubt if there has been any significant long-run difference between them or, if there has been, that the gains have gone to the most efficient food distributor.

What do the consumers get out of the process? Processing firm A introduces a new and more expensive container. In order to protect its position and retain its customers, processing firm B matches the opposition. At this point neither firm may be able to reduce its expenditures, although no more of the food material is being sold than previously. The consequence is that the consumer now has a more expensive container. This illustration describes the effect on the consumers. They are paying for more expensive containers which, it is true, they prefer to the original and cheaper ones. The illustration might equally well have referred, among other things, to appliances obtained under a stamp plan of a large retailer,

or to in-pack premiums offered by large processors. These are among the services which consumers get and pay for as a result of the non-price promotions of food merchandisers.[1]

There are certain features of the process which concern us. *Suppose that firm A had been in a position to reduce its price* but rather than do this it bought more expensive containers. In the end the consumer can be said to have benefitted by getting a more expensive container. If firm A had reduced its price, and firm B had followed suit, the effects on the consumers would have been different in two ways. First, the individual consumer would have had a choice as to the way in which she spent the income saved because of the reduction in price. The reduction in price thus gives the consumer the widest possible range of choice. As it happened, in the illustration, the consumer's choice (a more expensive container) was determined by the decision of firm A. Second, as the price of the service enters into the retail price of the food material, the price of food appears to have risen and the cost of living has increased. It can, of course, also be said that the standard of living has changed and improved but this merely illustrates the extent to which the development and character of the standard of living can be determined by promotional decisions and activities of business firms.

Influencing Demand

In discussing the causes of the increase in the spread in general and in particular cases, we point out that the volume of food materials consumed per capita has not increased. We have demonstrated that the increase in the spread in general has been caused by the increase in the prices of the supplies and services used in the food industries, and by an increase in the amount of services per unit of food material. We have argued that, under the conditions of the period and as a consequence of the structure of many segments of the food marketing system, there has been a tendency to compete in offering services to consumers rather than to compete in offering lower prices. We have not suggested that firms should not compete in offering new services to consumers, but we have distinguished between three kinds of service, all of which have been involved in the expansion of services offered in the past 10 years. Some services, we have noted, are in a sense imposed upon the food industries by reason of the changing structure of society and the emergence of new patterns of consumer behaviour. Other services arise or are made possible by changing technology which leads to new or improved opportunities to serve the wants of the consumers or to the creation of new wants. We have included as a third category of services various activities other than reductions in prices conceived by merchandising firms as part of their promotional program. In Part II we describe some of these devices, and further reference is made to promotional activities in Part IV, where we deal with packaging. We have pointed out earlier that we received a number of submissions from representatives of consumers and others expressing concern about the nature and extent of some promotional activities.

[1]Under the section "Services Associated wih Food Materials" we have distinguished between three categories of services. The illustration is deliberately chosen with reference to the category of "promotional services". It would not have been different in effect had we chosen some other category of services, e.g., the introduction of frozen foods.

Consumers' buying habits tend to become established in time, but over shorter periods and particularly when incomes are increasing there is considerable opportunity to influence demand and to create new patterns of consumer behaviour. Consumers who find their incomes rising have not evolved any firm pattern for spending the additional income, and are more readily influenced by appeals made to them. By employing modern techniques of sales promotion, food merchandisers have successfully exploited the conditions prevailing in more recent years, and have been instrumental in directing the latent demand associated with rising incomes along particular lines. We do not suggest that in this respect food merchandising firms have been different from firms in other industries. Influencing demand is part of the dynamic situation and it appears to us that food processors and retailers have engaged successfully in it.

During the hearings, the Commission listened to conflicting opinions on the question of the relations between sales promotion methods and consumer demand. Much of the evidence presented by the representatives of consumer groups implied that techniques of sales promotion influenced demand. On the other hand, many spokesmen of business firms resolutely maintained that merchandising methods respond to demand rather than create it. The position of the merchandiser appears to be that, if the consumer pays for something, this is evidence that she wants it, and that you cannot make the consumer pay for something she does not want. This proposition seems to us to be true, subject to certain qualifications. In the case of something new, the consumer cannot really tell whether or not she wants it until after the purchase is made. There must be a period of experimental buying. If, after a few purchases, the consumer discontinues buying, her purchases can hardly be said to provide proof that she wanted the commodity. They merely show that she was prepared to take a chance. To the extent that buyers must take this kind of chance in buying a new product, exploratory buying is a normal part of trading.[1] Moreover, this kind of buying may be particularly prevalent during a period of rising income, as consumers experiment in the disposal of their new purchasing power. If sellers, during such a period, frequently change the nature of their products or represent that such changes have been made, this may be evidence that they are relying more on the willingness of buyers to take a chance than on any solid basis of satisfaction to the consumer.

Subject to this qualification, we think we must support the view that, if the consumer buys, this is evidence that she wants the commodity or service offered. But the question remains as to how this want arises. No one would deny that the consumer wants food, nor would anyone argue that food merchandisers create this general want. As we show in Part IV, there is reason to suppose that consumer wants for particular classes of foods are substantially established by habit, and change, if at all, only slowly over time. The regularities apparent in the expenditures on foods indicate that, with changes in incomes, consumers as a group behave in a fashion which is predictable within limits. However,

[1]Consumer surveys of new items are carried out in many cases. For example, in the submission of General Mills, it was stated: "Every product General Mills markets is pretested in blank packages through a homemaker panel to determine interest, service, value and convenience, and the results are the determinant as to whether or not we will market the product". *Proceedings* before the Royal Commission on Price Spreads of Food Products, p. 4489.

when we get down to particular foods or particular varieties of the same food, less stability is evident. It is possible to establish regularities for consumers as a whole in the relation between price and the quantity of a particular product bought. But, if we think of changes in the nature of particular products, or of changes in varieties or brands, we find it impossible to believé that consumers' attitudes are unaffected by the efforts used by sellers to push their wares. It seems to us that, as between two breakfast cereals of the same main component, the fact that consumers buy more of one than of the other can, at least in many cases, be attributed in significant degree to the more successful promotion of the first. It is in this sense, we believe, that food merchandisers can create demand for particular products and in the long run demands thus created may become incorporated into the habitual purchases of consumers. The persistence of certain brands of prepared breakfast cereals seems to us to illustrate this point very well.

Persuasive Advertising and Promotion

In its simplest and most direct form, advertising is an informative device bringing to the attention of potential buyers the qualities of a product, which it is hoped will appeal to them and make them habitual buyers of it, and also the terms on which the product can be obtained. This type of advertising informs the purchaser, and leaves to her informed judgment the decision as to whether or not to buy, or to continue to buy. By assisting in securing the acceptance of new products, advertising contributes to the growth of the economy. When increased incomes are generated in some other part of the economy, advertising of the simple and direct kind adds to the welfare of the consumer by enabling her to make informed choices in the disposal of the new-found income. The welfare of consumers, as distinct from the mere evidence of acceptance, depends on the opportunities they have to exercise informed choice, and on the range of alternatives open to them. This proposition does not presume that the observer is competent to make such judgments on behalf of consumers. We merely state what we believe to be obvious, namely, that the consumers' welfare cannot be assured unless they have the opportunity to exercise informed choice and the range of alternatives open to them is not deliberately restricted. In our view, the nature of advertising does have a bearing on the exercise of informed choice, and methods of sales promotion may determine the range of choice open to consumers.

In many of the briefs, the Commission was presented with the argument that, as a result of certain promotional techniques employed by food merchandisers, the consumer was finding it increasingly difficult to exercise informed choice. One of the arguments was that the multiplicity of packages, varieties and brands being offered in food stores is confusing to the consumer. Subject to certain conditions which may be associated with the proliferation of products, it seems to us that variety in offerings serves the interests of consumers' choice. However, in view of the great variety of items available, it is not enough, we think, to take the position that, under conditions of multiplicity of choices, the consumer must be an alert buyer, and that if she is not, she can hardly blame the merchant. It is true that if the consumer is alert, variety gives her a better chance to get the most for her expenditures. But we believe that, under conditions of variety of

offerings, the public welfare is served and the welfare of the consumer assured, only if and in so far as the merchant accepts his clear responsibility to assist the consumer to make informed choices among the alternatives offered.

There are many means other than those which would fall within the responsibility of the food merchandiser by which the capacity of the consumers to discriminate wisely can be increased and we find it incongruous that in some countries in which business firms spend substantial amounts on advertising and promotion, other firms find it practical to sell other information supplementing or offsetting that provided by the sellers.[1]

There are certain simple ways, we would think, involving little or no additional cost by which the merchant can be of assistance to buyers. These include ready identification of price. They also include: clear marking on packages of the volume or weight of the contents; clearly recognized, consistently applied, and meaningful designations of quality; and other means which come within the purview of various government departments.

Consumer representatives frequently drew a distinction between advertising designed to persuade and advertising designed to inform. False advertising clearly does not inform even if it may persuade. But there is no difference of opinion about false advertising; all would agree that false advertising should be prevented by any effective means. "Misleading" advertising and promotion is more difficult to define, and agreement on how to deal with it would be difficult to obtain. It would be interesting to know how much time and expense are involved in advertising by competing firms to assure prospective buyers that their product is "the best" or, in the use of other superlatives, which cancel one another out. The ultimate misconception to which people can be led is that anything in the market is "free".

If consumers are misled by being induced to buy something which is said to be "better" when it is not, they may never find out. Further, we are reluctant to accept the argument that, if consumers find they have been misled, the lesson to be learned is to use better judgment next time. As we have pointed out, in the case of a new product, the consumer cannot tell whether or not she wants it until after the purchase has been made. For this reason, we feel that any argument that condones misleading advertising indicates a cynical disregard for the welfare of the consumer.

Prices and the Opportunity for Choice

While we think that efforts to assure informative advertising should be intensified we also attach importance to the issue of opportunity for choice, and particularly the opportunity for choice offered by a reduction in prices. In many instances, promotional expenditures are undertaken as an alternative to a reduction in price. The significant feature of a reduction in price is that the buyer can, if she chooses, reduce her expenditure on the particular commodity and turn the released expenditure to other things. (It is true that in some cases a reduction in price would not reduce and might even increase consumer expenditure on the commodity.) Reduction of price gives the consumer the widest possible extension

[1]We refer in particular to *Consumer Reports* and *Consumer Research* in the United States and *Which?* and *Shoppers' Guide* in the United Kingdom.

of choice among the things on which she will spend the income released. In our opinion, forms of non-price promotion which substitute for price reductions are detrimental to the welfare of consumers. The extent of this activity is evidence of an increasing reluctance on the part of business firms to offer reduction in prices.

We have repeatedly emphasized the peculiarly favourable conditions under which the food industries have been operating in the period since 1949—rising demand for final products and pressure of supplies of raw materials. Under these conditions, there was little resistance by consumers to advancing final prices, and certainly no great incentive to reduce them. Food merchandisers have competed among themselves for their share of the expanding market, by offering new and acceptable service to consumers (as we have indicated previously) and also by sales promotion techniques. This latter form of competition, as we have already noticed, is characteristic of certain forms of market structure. We have observed that the tendencies to price reductions which characterize a market in which there are many buyers or many sellers do not operate automatically when the number of buyers or of sellers is small. The tendencies effective in the food industries, because of external factors operating during recent years, have been accentuated by the market structure in many parts of the industry.

3. "Fair and Reasonable" or "Excessive" Spreads

The Commission was instructed to

> *"determine whether or not such price spreads in general or in particular cases are fair and reasonable, or are excessive, in relation to the services rendered".*

The Commission has experienced considerable difficulty in coming to grips with the concept of a "fair and reasonable" spread. A spread is presumably "excessive" if it is greater than "fair and reasonable". The key to the problem presented to us is to determine how much is "fair and reasonable", but we know of no objective test. Any decision involves judgment. However, where judgment is applied, it should be possible to set out the reasons for the decision. This we have tried to do.

For reasons which we give elsewhere, we do not believe it is possible to discover a particular spread for any commodity—whether measured in absolute terms or as a proportion of the consumer price—which is, and will remain, "fair and reasonable"; neither is there a general spread which will always be "fair and reasonable". We hope the argument we present in Part V is convincing. The price to the primary producer is a payment for food materials. The retail price is a price for the materials plus prices for the services to consumers which are provided in the marketing system. For very good reasons, the two prices can move independently of each other. There is no fixed and fair relation between them. In our measurement of particular spreads, there is a wide difference between individual cases. On the face of it, there is no reason to suppose that a spread of 13 cents (with the farmer's share at 54%) per pound for beef is any more

"fair and reasonable" than a spread of 18 cents (with the farmer's share at 77%) per pound of butterfat. We have estimated that the farm value represents about 44% of the retail value of all food produced and consumed in Canada. On the face of it, there is nothing to suggest that it would be more "fair and reasonable" if the general spread were 50%. Information which does not penetrate more deeply than these figures contributes little in the way of helpful knowledge.

The terms of reference are "to determine whether or not such price spreads in general or in particular are fair and reasonable, or are excessive, *in relation to the services rendered*". Within the food marketing system, payments are made for services rendered by persons connected and identified with the food industries. These services can be reduced to the provision of capital and labour. If the spreads are excessive, then the payments for capital and labour, or one of them, must be judged to be excessive.

Payments are also made by firms in the food marketing system to firms not engaged primarily in food marketing. In Part III we refer to these as "payments to firms in other sectors of the economy". The services for which such payments are made include transportation, advertising, cold storage, and the supply of packaging materials which we discuss in Part IV. Although the demand of the food industries is part of the total demand for these services and, therefore, has some part in determining the prices for them, we believe it is correct to say that the food industries have paid only prices which they have been required to pay by reason of circumstances outside their control. Some of the prices may have been "excessive" in relation to the services rendered. However, we have not examined the areas of the economy outside the food marketing system, and are, therefore, not in a position to say that any of the prices paid were, in any sense, excessive. All we can say is that the increasing prices of services hired by firms in the food marketing system have contributed to the widening of the spread.

The problem is sometimes approached by reference to the share of the sales value or of the consumer dollar. Thus it is claimed that profits are "fair and reasonable" when they represent a small per cent of sales or of the selling price. It is argued that wages are not excessive if rising wages are not associated with an increase in the proportion of wages to total sales or to the price of the product.[1] In attempting this approach, we have found it unrewarding and unproductive.

The share of any one factor (raw materials, labour, capital) as a per cent of sales depends on the relative amount of it used in the process or in the performance of a particular function. In some processes, raw materials form a large proportion of the total input: the ratio of raw materials to labour and capital is high. Other processes tend to use relatively large quantities of capital and in still others the amount of labour used is relatively large. In each case the ratio is determined more by technical considerations than by the prices of the factors. The relative quantities used affect the proportion which payments to any one factor represent in the final price. For this reason, the payment to any one factor expressed as a per cent of sales cannot indicate whether the payment is "reasonable" or "excessive". Neither can the change in the per cent of sales associated with any factor demonstrate that the payments to that factor have become more or less "fair". The relative quantities of each factor used in a particular process can change over

[1]See Part III for some comment on this approach.

time as a result of changing technology. We deal with this problem in Part V in reference to the "absolute" price spread for particular commodities.

There is one point we wish to stress further. We have referred to the contention that, if net profits after taxes as a per cent of sales are small, the effect on the final price is small, and therefore the return on investment cannot be considered excessive. We cannot accept this reasoning. If net profits after taxes are a small per cent of the final price, it is true that any reduction in net profits (even to the impossible level of zero) would have relatively minor effect on price. But this does not prove that the return on investment being earned by the providers of capital is "fair and reasonable". Conversely, if wages are a large per cent of the final price, it is true that a change in wage rates will have a relatively large effect on the price. But this again does not mean that an increase in wage rates would raise wages to an "excessive" level.

Changes in the Returns to Primary Producers and to Capital and Labour in the Food Industries, 1949 to 1958

In any attempt to judge whether profits or wages as components of the spread are "fair and reasonable", the first step is to look at payments per unit of capital and per unit of labour. In the same way, if the return to the farmer is to be judged in terms of "fairness", it is to the return per unit of input by the farmer to which we must look rather than to his returns in terms of the consumer dollar or of the price per unit of the product.

In Part I we point out that the annual real incomes of farm families (from farm operations) in 1958 were slightly less than in 1949. Over the period, labour input per farm has decreased, but investment per farm has increased. Real income per unit of non-paid labour per farm has not increased. (Real income per worker in the food industries increased about 23%.)

Returns to hired labour in agriculture are found in the statistics of farm wage rates. Based upon a monthly wage of $74.87, including the value of room and board, paid farm labour had an annual income of $898 in 1949. By 1958, the monthly wage on the same basis as the foregoing had risen to $101.00, or an annual rate of $1,212, representing an increase of 35%. In terms of real income, however, the paid farm labour realized only an 8% increase in this period.

Over the period, the primary producer has fared relatively badly, but not, we think, as badly as is sometimes represented. By 1958, farm prices were practically at the same level as 1949. But the farmer's current position is not infrequently described in terms of the relation between prices in 1951 and 1958. Farm prices rose rapidly in 1951 (18%) and remained high into 1952. Money incomes were also high in these years, but rising prices paid by farmers as producers and as consumers largely cancelled out the gains. It does seem clear to us that by 1951 farm incomes were being supported by prices which simply could not be sustained for the quantities being produced. The 1951 prices contributed to the collapse in prices by the incentive provided to expand production and by the expansion of production which did in fact occur.

From the evidence in Part III, it appears that profits, i.e., the returns to capital in the food industries, have tended to decline, particularly in the later years. We believe that the inflation of the years 1949 to 1951 had carried profits to an

abnormally high level associated with the rapid upward movement of prices. The level of profits in the early part of the period could not have been sustained without a continued rapid increase in consumer prices. In this sense profits in the early part of the period were unnecessarily high and could face a decline without restricting the supply of capital.

Real wages in the food industries have risen throughout the period. In the early part of the period, the rate of increase in real wages was relatively slow as a consequence of the acute inflation. To this extent wages may be said to have been relatively low at the beginning of the period, and that a later rise in wages more rapid than the long-run rate could not be judged to be more than fair and reasonable.

Returns to Primary Producers and to Labour and Capital in the Food Industries, 1958

We can compare the returns to labour and capital in farming with returns to labour and capital in the food industries in 1958.

The average net farm operating income per non-paid farm worker in 1958 was $2,582 and represented a 21% increase over 1949. If we use the income measure of net farm income, the average per non-paid farm worker in 1958 was $1,973.[1] For purposes of comparison we use the higher measure. Annual earnings of $2,582 represent weekly earnings of $49.65. This measure represents returns to farmers and their families from farming operations only and does not include any income that operators and their families may have earned from non-farm sources. However, the fact that these average earnings are about the same as the lowest levels of earnings of employees in food processing suggests relatively low returns to labour in agriculture. But the farmer also provides capital. The returns to labour in agriculture are, therefore, clearly realtively low. It is quite evident that the returns to capital in farming are also relatively low.

Although we do not have average returns to labour and capital in the food industries, it is possible to make some comparisons with returns in other industries.

In Part III we report on wages and profits in the food industries and compare them with rates of return to labour and capital in other industries. The available data do not permit a detailed comparison of wages of different categories of workers. However, the evidence we have been able to assemble indicates that the level of wages in the food industries is, and has remained, below the level of wages in comparable activities. The Slaughtering and Meat Packing industry is the only food industry in which average wages are greater than the average for all manufacturing. Profits in the Prepared Breakfast Foods industry have remained continuously out of line with returns to capital generally. The profits of chain food stores have been higher than the average for all retailing. Otherwise, except for particular firms, profits in food processing and distribution have not been high in comparison to

[1]"Net Farm Operating Income" is the sum of cash income from the sale of farm products, income in kind and supplementary payments *less* cash expenses. It does *not* allow for depreciation. "Net Farm Income" does, however, allow for depreciation and in addition takes account of inventory changes.

rates elsewhere. Profits in food industries generally have followed the same trend as profits in other parts of the economy, i.e., high in the years immediately prior to 1952, but declining in the later part of the period.

Return to Investment in the Food Industries

In a system operating wholly under private enterprise, or in a mixed economy with a substantial segment directed by private enterprise, the return to investment, or payment for the provision of capital, is necessary if the system is to perform its functions. In the absence of returns to capital, the supply of capital would dry up and productive enterprise come to a halt. In other words, these returns are a part of the mechanism of directing economic activity under private enterprise. (In what follows we refer to the returns to equity capital as profits.) We believe that this view of the function of profits is widely recognized and accepted. Indeed, this conception of profits takes precedence in the minds of the majority of Canadians over the view of profits as a source of income, although such payments to persons are both payments for services rendered and an inducement to provide the services, and also a source of personal income. The relative emphasis placed on profits as a necessary payment for, and to induce, service in the form of the provision of capital, and the tendency to ignore the income aspects, seems to result from the general and implicit assumption, which is not without foundation in fact, that high or increasing profits contribute to disparities in the distribution of incomes.

The conception of profits as a mechanism for directing economic activity implies that at times, and under some circumstances, profits in a particular industry may be higher than in other industries generally but that this condition cannot, or would not, persist for any length of time if the mechanism was working effectively. It similarly implies that, if profits in an industry are relatively low, this condition cannot or should not continue indefinitely. According to this view of profits, high profits should attract more investment in the industry; low profits should lead to withdrawal of capital or should fail to attract the capital required for maintenance or expansion. The effect of high profits is to induce an expansion of output and a decline in profits to a more normal level. The effect of low profits is to cause a contraction of output and an increase in profits to a more normal level. Capital is assumed to be fluid and mobile and to be drawn to those situations offering the prospect of higher returns and away from those situations with prospects of low returns.

It may be conceded that the mechanism does not work perfectly, and there is ample evidence of imperfections. Nevertheless, the role of capital in the direction of economic activity is so basic an element in the rationale of capitalism and private enterprise, that to deny the mobility of capital and, therefore, the tendency to equivalence of profits in all parts of the economy would be to deny the basis of private capitalism. Consequently, when profits are high and remain high, it may reasonably be concluded that they are excessive in relation to the service rendered in the performance of the essential function of providing capital.

We have stressed the tendency to equivalence of returns to capital in all parts of the economy. However, even if capital performed its essential function perfectly, there would not be complete equivalence of rates of profits everywhere. The flow of capital, which results from the decisions of investors, is based on a variety of factors affecting the relative attractiveness of different industries. Prominent among these factors is the element of uncertainty and risk. Consequently, to be equally attractive, the rate of return in a more hazardous industry must be somewhat higher than in another where the risk is lower. People must eat, in good times and in bad times, and the food industries, particularly closer to the level of the consumer, in so far as they are involved in the provision of food materials are in a relatively stable and assured activity. We would agree that, as more and more services become attached to food materials, the specific demand for the services may be less stable than the demand for the materials, thus introducing a larger element of uncertainty and risk.

The tendency for returns to capital in various industries to settle at a normal level operates in the long run. In shorter periods when demand is increasing rapidly (for example, 1949 to 1951), prices of consumer goods tend to rise as firms generally advance prices in order to ration goods which are in short supply in relation to demand. Advancing prices contribute to higher rates of profit, and higher rates of profit provide inducements to further investment which may serve to aggravate the effects of demand on prices. Such periods of "boom" may be followed by other periods when demand declines sharply and profits are reduced as firms cut prices to sell goods which are in abundant supply in relation to demand. Declining prices contribute to reduced profits and reduced profits restrict investment which may serve to aggravate the effects on prices. Or, if prices are maintained, there is unemployment and a further decline in incomes and expenditures, which tends to aggravate the effects of the initial decline in demand.

The persistence, over a period of years, of relatively high profits in a particular situation may be taken as evidence of an excessive rate of return that has its effect on prices. In our comments on returns to capital in Part III, we draw attention to situations in which rates of profits were 10% or greater. We do not imply by this that the necessary rate of return in any or all of the food industries is 10% on net worth. We recognize the impossibility of measuring the significance of such factors as risk. We do feel satisfied that a rate of return in excess of 10% in the food industries justifies comment when the rate of return in industry generally is averaging about 7.3%.[1]

We discuss two cases, the Prepared Breakfast Foods industry and the retail chain stores. These have been selected because in each instance the rate of return on net worth has exceeded 10% throughout the period. Over the nine years the average rate was 29.2% for three breakfast food firms and 17.1% for five corporate retail chains. We do not single out these cases as the only situations in which there might be reason to be concerned about the effect of industry performance

[1]This was the average rate for 1958 for firms surveyed by the Canadian Manufacturers Association. In Part III we have shown the rates of return computed from *Taxation Statistics* for the years 1949 to 1957. In 1957 the rates of return were 8.5% (Taxation Statistics) and 9.2% (Canadian Manufacturers Association).

on the unorganized primary producer and the unorganized consumer. They illustrate the consequences of industrial structure and practices which are certainly not confined to the preparation of breakfast foods or large-scale retailing.

The Prepared Breakfast Foods Industry

In our study of the returns to capital in the food industries, we found one situation, viz., the Prepared Breakfast Foods industry, in which the returns to capital have been abnormally high and without any tendency to decrease during the period. The industry is a relatively small one measured by total volume of sales. The quantity of food material handled is not great. But the gross margin is about 73% of sales. The conditions under which labour is employed—wage rates, hours of labour, fringe benefits, etc.—compare favourably with those in other industries. This industry illustrates conditions, found in greater or less degree in many parts of the food marketing system, about which we have something to say at a number of places in our report. A few firms, including in this instance one that is larger than the others combined, have been successful in creating in the minds of consumers an attachment to a name, of a firm or of a product, and in maintaining this attachment by large expenditures applied for the purpose of perpetuating the image of superiority. We do not wish to suggest that the products are not technically excellent. The firms, or their parent companies, carry on continuous research into ways of controlling, preserving and improving quality. But no one of the firms has a magic formula. There is no physical characteristic of the product which could not be duplicated by a competent competitor.

Why then have profits in this industry remained high over the past 10 years?

The prices of the products have increased over the period sufficiently rapidly to preserve the high levels of profits being earned in the industry. In terms of a fair and reasonabe return on capital, there was no necessity for so rapid an advance in prices. However, because of circumstances for which the industry was responsible only to a negligible extent, it was possibe for the firms in the industry to obtain higher prices. As we have said before, there is no law which prevents firms from charging as high a price as they can get. However, as we shall argue more fully later, the tendency for firms in all or most industries to extract the maximum prices they can get makes more difficult efforts to achieve a stable general level of prices, and is one of the factors making for increases in the level of prices.

Within the decade, an additional firm, General Mills, has entered the Canadian market as a seller of breakfast foods. Despite this increase in the number of firms over the period, profits have remained high.

Chain Food Stores

The other situation in which we have found abnormally high profits throughout the period and in comparison to levels of profits elsewhere is among the chain food stores. In this case, however, there has been a noticeable tendency for rates of profits to decline over the period. Parts of the explanation of the profit position of the corporate chains may be found in the various portions of our report dealing with the operations of chain supermarkets. It is not a story which can easily be reduced to simple terms or to brief dimensions.

We have not investigated the profits of chain stores prior to 1949. The chains were well established by this time. The increase in the rate of profit from 1949 to a peak in 1950 was in line with the general advance in profits in these years. The peak rate of profit in 1950 can, therefore, be attributed to a number of factors, including the general conditions making for higher prices and profits between 1950 and 1951, the changes in and the growth of demand for food and food services occurring in the urban centres, and the relative facility with which the chain organizations could move into and develop the more profitable situations. The subsequent decline in profit rates can be attributed to the slowing down in the rate of increase in aggregate demand during the middle '50's, the buildup of facilities by the chains and increasing actual competition among them. That profit rates did not decline more rapidly may be explained in terms of the factors which limit the rate at which a firm or an industry can expand its capacity and the nature of competition.

We should elaborate on some of these points. The sharp increase in aggregate demand, related mainly to policies and activities connected with the Korean War which occurred between 1949 and 1951, was clearly inflationary in its effect. The general level of prices rose rapidly, and, as is customary under such conditions, profit rates increased. However, the particular conditions affecting food retailing were also contributing to a high level of demand for new facilities in growing suburban areas, and to a high level of profits to those who could move in concurrently with the development of the new service areas. The large corporate chains were not only quick to respond to the needs of urban consumers; their already well-established position, their high profits, and their ready access to capital, enabled them to move into situations in which substantial profits could be made. But this highly favourable conjuncture of circumstances did not last long. The rate of increase in demand in general was checked in 1951. This did not eliminate the incentive to expansion in food retailing. With some lag because of the sheer organizational difficulties in moving forward a major program of expansion—acquiring sites, planning facilities, proceeding with construction, recruiting and training staff, etc.—the chains maintained their expansionary programs. Having started the expansion of supermarkets in the territories with which they were familiar, and in the most profitable locations opening up, continued growth inevitably carried the chains into areas in which conditions were relatively less favourable. In the investment boom which followed 1954, the chains began a period of even more rapid expansion which eventually has led them to extend their operations into markets previously the exclusive territory of their major counterparts and rivals. It seems likely that excess physical capacity will emerge and possibly "price wars" with reduced prices will occur. Either of these developments would continue the downward trend of profits towards more normal levels. Over the period, given the level of services being offered by the chains, lower prices would not have reduced the returns to capital below the levels in other forms of investment. However, lower prices, again assuming the same level of services, could well have had the result of slowing down the rate of expansion.

There is, however, another significant aspect of the growth of the chain supermarket organizations to which we should call attention. Between 1950 and 1957, the profits of major chains dropped from 20% to 15% on net worth. The data in Table 7, Volume II, Part II, show that in these eight years $88.5 million, or 62%

of the increase in net worth of retail food corporations represented accumulated earnings retained during this period of high profits. The total retained earnings during the period was equivalent to 95% of the total net worth in 1949, and 38% of the total net worth in 1957.

In our opinion, the financing of expansion, largely out of retained earnings which are themselves a part of abnormally high profits, has certain unfavourable consequences, particularly in a period of rising prices. We have agreed that the high level of profits was itself the inducement to expansion, and we are not prepared to say that under these or similar conditions no part of the high profits should be used for expansion by firms. Even if all the profits of chain corporations had been distributed as dividends, it is possible that funds in equal amounts would have been available through the market for the expansion of supermarket food retailing, because of the high potential profits. However, had the chains had to go to the market for the funds they obtained by retention of earnings, ownership in these organizations might have been more widely diffused than it is. It is also possible that, if the retained earnings had been distributed as dividends, some part of them or the equivalent of some part of them would have found its way into the expansion of other areas of economic activity. In other words, the reinvestment of undistributed profits in the firm may direct or misdirect the flow of capital, and allocate or misallocate productive resources in the economy. Again, it is possible that, had all the profits been distributed as dividends in the food industries and in other industries, this would in periods of rising prices have reduced the inflationary pressures.

Payments to Labour in the Food Industries

It is difficult enough to arrive at a generally acceptable definition of a "fair and reasonable" level of profits, and we doubt if the arguments in the previous section will be acceptable to those who, without approving every particular situation, are convinced that on balance we must accept the decisions of business firms as, in total, giving the best possible results for the economy as a whole. It is, we feel, even more difficult to discover a generally acceptable approach to the question of "fair and reasonable" wages. The reason is that in judgments with respect to the reasonableness of wages there is an increasing tendency for income considerations to become thoroughly mixed up with the aspect of wages as a payment for services which provides incentive for the provision of particular labour services. There is a very general disposition to approve wage increases, particularly when these occur in situations where wage rates and the incomes of workers are relatively low. But clearly, in these cases, the increase in wages is approved because of its income effects rather than because of its effect on the supply of labour to the industries involved.

There is, in comparison to the approach to profits, no parallel emphasis on wages as a mechanism for directing labour into economic activities. There is a growing general tendency to assume that labour is not, or should not be expected to be, fluid and mobile; that high wages are not, or are not to be considered as, a magnet which will draw more workers into the industry; that low wages are not or should not be allowed to operate as, a force resulting in the withdrawal of workers and their employment elsewhere. No matter what problems these attitudes

may create in an economy based on private enterprise, it appears that we have to live with them and learn to adapt ourselves to them. It is possible to overestimate the extent to which they pervade the general thinking in this country, and the degree of mobility of labour is still considerable. Nevertheless, the mixing up of income or welfare considerations with the concept of labour as a mobile factor of production does make it difficult to reach a generally acceptable definition of "fair and reasonable" wages comparable to that which can be employed with reference to profits.

It does seem to us that the emphasis on the income aspects of wages overlooks the relation between the amount of labour that will be employed in a particular firm, or an industry, or the economy as a whole, and the level of wages. Under the conditions prevailing at any time there is, we think, a relation between the amount of labour which will be hired and the wages to be paid in particular situations. Neglect of this aspect of the problem is not surprising in view of the circumstances of the period we have had under review. More or less continuous increases in wages have occurred in all industries, the food industries being no exception. This upward surge of wages has not, with respect to the period as a whole, been accompanied by any difficulty in maintaining the supply of capital, in general or in particular industries, to promote efficiency or to provide for expansion. Wage rates have increased; profit rates, although declining, have been adequate. But the period has been one in which the general level of prices has risen.

Wages, Profits and the Price Level

We have noted that part of the increase in the general spread is due to the 43% increase in the prices of the supplies and services used in the marketing of food, and we have attributed this increase to the factors responsible for the general rise in prices. The retail price index is a composite of particular prices for goods and services; particular prices are elements in the general price level. Wages and profits are themselves prices, and are the elements which make up the prices of particular commodities. The general price level is a composite of wages and profits. (The earnings of the producers of food raw materials include both wages of labour and returns to capital.)

Throughout our report we have related generally rising prices to expansion of aggregate demand, and we have stressed the fact that the sellers of final products may be expected to sell for the highest prices they can get. The highest price sellers can get depends on consumer demand.

There are two views, both widely held, with respect to the causes of a general rise in prices. The first view is that prices rise because the flow of income and expenditure is increasing more rapidly than the flow of goods and services; this increase in demand pulls up the prices of goods and services, and distributes higher wages and profits. This explanation puts the emphasis on demand as the cause of a general rise in prices, and leads to the conclusion that the cure for rising prices must be sought in policies designed to retard the expansion of demand by appropriate monetary and fiscal means. The other view is that increasing payments increase costs, and when costs rise sellers advance prices. (Usually the explanation stops at this point, but it is obvious that if buyers are to pay the higher prices, that is if the higher prices are to be sustained, there

must be a sufficient aggregate demand.) This school of thought emphasizes the conditions of supply of productive resources—labour and capital. (Many of those who express this view refer particularly to the conditions of supply of labour and to wages as the element in costs.) This explanation of rising prices leads to the conclusion that inflation can be cured by checking or resisting increases in payments to wage earners or to the providers of capital.

We do not think we can rule out either of these explanations of the chain of cause and effect relations behind the phenomenon of generally rising prices. It seems obvious that any deliberate dampening of demand which stops the general rise in the prices of goods and services must, in doing so, check the rise in payments for some productive services. On the other hand, if there is no upward pressure of payments and of particular prices, measures to dampen demand are unnecessary. In our judgment, therefore, a tendency to a general rise in prices may be avoided, if there is a sufficient desire to avoid it, by a combination of policies designed to retard the increase in demand and by restraint on the part of those involved in pressing for increased payments either as wages or as profits.

The general level of prices is related both to the flow of income and expenditure and the flow of goods and services. If the former is increasing more rapidly than the latter, prices generally will tend to rise. Prices are therefore related to productivity. Increases in productivity result from increases in knowledge and skill which attach to people, from the introduction of new capital equipment incorporating new techniques, and from the use of more capital per worker. Productivity has been increasing over the period we have studied, although obviously it has lagged behind aggregate demand. This was quite apparently the case in the years 1949 to 1951. Unfortunately the observation and measurement of productivity is difficult, and is particularly difficult in the service industries. Partly because of deficiencies in the available data we have not been able to do better than to construct the crudest measures of productivity in some of the food industries (value of production per worker), nor have we been able to compare changes in productivity in the food industries with increases elsewhere in the economy. We are not, therefore, in a position to say how far increases in wages may have advanced ahead of productivity in these industries. We agree that, if for any reason wages in a particular industry advance more rapidly than productivity, either profits must decline (this will not reduce the demand for labour in the industry if profits have previously been excessive) or prices must rise, or there must be a tendency to unemployment. There will be an effort to pass on the higher costs in increased prices. This will be effective if the conditions of demand are favourable.

At any time there are industries in which productivity is increasing relatively rapidly and others in which productivity is increasing relatively slowly. It is generally conceded that productivity gains tend to be greater in the processing industries than in the service industries. It is in the former that increasing skill, new capital-using techniques and more capital per worker operating together can achieve substantial results. In industries which are advancing because of rapid gains in productivity, it is relatively easy to secure increases in wages. These

increases tend to induce wage increases in industries which are not experiencing gains in productivity. The end result is that over the whole range of industry the transfer of gains from increased productivity to wages in those industries in which productivity occurs is accomplished, with some lag, by an increase in wages greater than the increase in productivity in other industries. If all the gains from productivity in any industry are transferred to wages, this prevents a decline in prices in that industry; the rise in wages in other industries is accompanied by an increase in prices. On balance there is an increase in the general level of prices which may be sustained by an increase in aggregate demand.

What we are pointing out here is that, if wages are to advance ahead of productivity in some industries, a stable level of prices implies that wages in other industries will not advance as rapidly as productivity increases. This proposition must be qualified by reference to the structure of the industries and the level of profits. In industries in which an "excessive" level of profits is maintained, there is no good and sufficient reason why an increase in wages should be passed on, in whole or in part, in higher prices for the product. In these industries there should be sufficient flexibility, through a decline in profits, to check any tendency to rising prices. We have found in the food industries some illustrations of situations in which, by any reasonable definition of the term, profits must be judged to have continued through the period at an "excessive" level. Although it has not been our responsibility to study other parts of the economy, we are disposed to believe that instances of similar situations could be found outside the food industries.

We have said above that a tendency to a general rise in prices (including prices in the food marketing system) may be avoided by appropriate policies and attitudes, *if there is a sufficient desire to avoid it.* We have considered the arguments for and against the objective of a stable level of prices. We appreciate the force of the arguments in favour of a slowly rising price level, but only on the assumption that the pace of advance of prices could be kept at a slow rate. In our opinion this is a doubtful assumption. Control of the level of prices, whether the level is to be maintained constant or advancing slowly, calls for the avoidance of actions which will allow prices to advance or to advance more rapidly. If the objective of a stable level of prices is discarded, there is little reason to suppose that the objective of limiting the rate of advance to a given amount would be maintained. During the past 10 years the general retail price index has increased at an average rate of 2% per annum. This has not been the result of deliberate policy; indeed the policy appears to have been to maintain stable prices. Suppose that the policy were to limit the rise in prices to 2% per annum. What reason is there to suppose that the actual rise in prices would not be, say, 4%?

Provided that a stable price level is not incompatible with growth of the economy, we see no sufficient reason to discard the policy of seeking to maintain a stable price level. But it must be recognized that the objective of a stable price level implies that some prices will decline. (It is likely that a slow increase in the general level of prices would involve some decreasing prices. Certainly it could mean that some prices were advancing less rapidly than others.) Diminishing prices should be found in those industries which from time to time are

experiencing the more rapid increases in productivity. The prospect that this will happen is enhanced when there is a disposition to reflect productivity increases in reduced prices, or when there is some compulsive mechanism which brings this about.

It is sometimes argued that no one has been greatly hurt by the slow increase in the general level of prices during the past 10 years. We agree that it is possible to overstate the problems which a domestic increase in prices creates. But its incidence is unequal. Property owners, including owners of equity stock reap substantial unearned rewards.[1] Wages of labour, where the bargaining position is comparatively strong, rise relatively rapidly. In other occupations earnings lag behind rising living costs. Some producers, e.g., wheat farmers, who sell their products outside the country, may actually suffer a decline in real incomes. These inequalities create tensions rather than reduce them.

We agree that there is a substantial problem of accurate measurement of the extent of the increase in the general level of prices and of the cost of living. We note this problem in connection with our discussion of price indexes in Part I. The problem can be described by reference to the illustration we used under the section "The Effects of Service Competition". The introduction and acceptance by consumers of a more expensive container shows up in the price of the food material at retail: the retail price rises. If the commodity is used in the calculation of the retail price index, the index will rise. But the consumers are getting a preferred container. The cost of living has increased, but the value of the dollar has not decreased. Actually, for the purpose of measuring changes in retail prices, statisticians do attempt to eliminate the effect of the introduction of the more expensive, and preferred, container. To the extent they do this—and it is obviously difficult for them to keep up with all the changes that are occurring—the index does not rise. When the index is used to deflate increased money incomes the effect is to show that real incomes have increased. To the extent that statisticians are unable to detect and to eliminate the price effect of the new container, the use of the price index as a deflator fails to reflect the increase in real incomes. The problem of the statistician is even more difficult in dealing with the kind of improved services which are general in character and do not attach to any particular commodity.[2] For example, there has been a general improvement in the facilities in retail food stores, e.g., air conditioning. The cost of this service enters into the prices of all foods sold through the stores. The statistician cannot eliminate this factor from the prices of the commodities he includes in his index. The index, therefore, shows an increase in the price level. When the index is used to deflate incomes it fails to disclose the increase in real incomes due to the improved service. In a period of rapid technological advance there are probably many services of a general kind which cannot be eliminated by the statistician. In so far as this is the case, the increase in the index does not correctly reflect the real decline in the purchasing power of the dollar. These problems of measurement and interpretation of price indexes

[1]See p. 63-4, Part II, for our reference to the position of the original shareholders in the corporate chains; also p. 11, Part I for comments on the real incomes of different groups.

[2]See pp. 26-7 for our discussion of different categories of services.

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suggest that, at certain times and particularly at times when general services are being made available, a minor increase in the index does not reflect any real inflation or increase in the cost of living.

Although we think it is possible to exaggerate the extent of the "inflation" which has occurred in the past 10 years, and particularly since 1955, nevertheless, we think a firm policy designed to maintain a stable price level is desirable.

4. Recommendations

The Commission was instructed to

> *"make such recommendations as they deem appropriate if any such price spreads are found to be excessive".*

Many of the submissions we received implied that anything that adds to the profits of a firm necessarily contributes to the welfare of everyone. With respect to a large part of the food industries with their present structure, this assumption is no more correct than the assumption implicit in other briefs that anything that reduces profits adds to the welfare of all. We will have failed in letting the facts tell their own story if our report does nothing to shatter these twin illusions in quarters in which they are still held. In a system of private capitalism, or a mixed system, there is a return to the provision of capital below which its supply will dry up and productive enterprise decline or proceed more slowly. Despite the imperfections it is not our wish or suggestion that our economy or social system should be rendered unworkable or fundamentally changed. When the structure of any industry rests, however, upon large organizations things can and do happen which serve the interest of the organization and those in it to the detriment of consumers generally. The persistence of legislation to investigate combines and the record of operations under the Combines Investigation Act substantiate this statement. The first corrective we suggest is a general recognition and admission of the fact. If it is not recognized, admitted and accepted, necessary steps to safeguard the position of the consumer, i.e., the public generally, will be opposed and may be frustrated.

However, we do urge that the problems be approached with a proper sense of proportion. Large-scale enterprise has, in many situations, much to contribute. The results of our inquiries, as set out in our report, provide no reasonable grounds for condemning the whole food marketing system or every part of it. Indeed we hope we have made it clear that during the period we have reviewed, the food marketing system, spearheaded by large firms, has many and substantial achievements to its credit. These achievements include marked improvements in technology, wide variety of dependable merchandise of a high quality, and the opportunity to shop under convenient and attractive conditions. It is important that where correctives are to be applied these do not result in throwing out the baby with the bathwater.

We doubt that breaking up large firms in the Canadian food industries in order to create industries of small firms would result in any net advantages. The technical advantages of size may be too valuable to lose. It could well be an object

of policy, however, to limit concentration or to prevent further concentration which offers little prospect of achieving further increases in efficiency. We would hope that there would always be a fair opportunity for the relatively small and efficient firm to survive, and for the innovator starting on a small scale to become established.

As the economy becomes more complex and, as we expect, large organizations continue to dominate most food industries (and other parts of the economy) machinery necessary to assure the protection of the public interest may have to become more elaborate. We see no reason to believe that the machinery should expand in proportion to the growth of the economy, and we are disposed to avoid recommendations which would merely enlarge government departments or proliferate administrative boards or agencies whether of industry or government. Nevertheless, if public protection is necessary, there may be no alternative.

In our references to agriculture we have attributed the decline in prices which began in 1952 (apart from the conditions of the export market) to the buildup of productive capacity and to increased productivity in the industry. It is true that, in an industry of small firms like agriculture, the forces of expansion may proceed too far, and the subsequent and necessary readjustment may proceed too slowly, making for irregularity of prices and incomes. It is also true that the decline in prices is not a deliberate policy of those engaged in the industry, indeed they would wish to avoid it, if possible. But the structure of the industry is such that the gains from increased productivity are effectively passed on to the consumer in lower food material prices.

Conditions in most of the food industries are significantly different from those of agriculture. In the food industries the number of firms is typically small, or the industry is dominated by a few large firms. The kind of competition which is found in the farm market does not occur in the intermediate markets. The problem is to discover some way of inducing industries in which there are few firms to contribute to the welfare of consumers generally and to stability of the general level of prices by passing along some or more of the gains from increased efficiency in the form of lower prices. But, the structure of the industries remaining unchanged, the design to accomplish this must become an accepted policy of those engaged in the food industries. It will not occur in any apparently automatic way, as it does in agriculture.

We suggest that a continuous flow of information is itself a corrective to abuses, real and imagined. We trust that the information brought together in our report will serve this purpose. We have noted that the subject of prices, and their incidence on particular groups in the economy, is one which comes up for study, by Royal Commission, in periods of low prices and in periods of high prices, with unusual frequency. For various reasons we might wish to believe that by more persistent and regular treatment of the subject the major operation of a Royal Commission might be avoided. We are not so optimistic, but, even if periodic Royal Commissions on prices must be expected, there are perhaps some ways by which the subject could with benefit be kept under continuous review.

The problem of inadequate information on the operation of individual firms was brought out in the brief of the Government of the Province of Ontario to this Commission. Much of the information, if not all of it, which is required for an

inquiry into prices must come directly or indirectly from the records of firms who buy and sell. One of the reasons for a Royal Commission may be that the powers of a Commission under the Inquiries Act are necessary to obtain information for a full inquiry. The Commission has had to require the provision of information, which was given in particular cases with some reluctance, but our inquiry could not have got as far as it did without information from individual firms. There may be justification for requiring through periodic inquiries provision of information on a more massive scale and penetrating level than would be expedient if it had to be made available at all times. Reluctance on the part of firms to supply information is due either to the feeling that information on the operations of a firm belongs to its private domain and should be confidential to it, or to the effort and expense involved. We sympathize with these views. In so far as the operations of the firm are within the law and there is no reason to suppose they are contrary to the public interest, there is an overwhelming case against unnecessary intrusion and exposure. The supplying of endless reports can become onerous on large businesses, and a severe impost on small firms. Information on the operation of the economy is, however, necessary to the proper conduct of public affairs and the necessary information is, in most situations, available only from individual firms. But every effort should be made to keep the amount of information firms are called on to provide to the minimum required in the public interest.

We recommend that private companies be brought under Section 121 of the Dominion Companies Act.[1]

A. *The General Level of Prices*

During the period 1949 to 1958, given the domestic and external factors which caused the decline in farm prices, the problem of the widening price spread has developed out of the structure and competitive behaviour of the food industries, and out of the forces making for an increase in the general level of domestic prices. In considering the causes of the spread we have unavoidably been led into a consideration of the factors to which the rise in prices of commodities generally can be attributed. The factors associated with the increase in the prices of consumer goods are also associated with the changes in the prices of the productive services which, along with raw materials, go into the provision of final goods. In discussing "Wages, Profits and the Price Level" we have touched on this point, and have referred to the two main explanations of the phenomenon of rising prices which stress alternatively the demand for final goods and services and the supply of the services which go into their production.

The key to the maze of cause and effect relations involved seems to us to be found by looking at the demand side. The given flow of consumer goods cannot be purchased at rising prices unless the incomes and expenditures of consumers cover the higher prices. If demand related to incomes and expenditures moves up rapidly the increase in prices can be said to be generated by demand. On the other hand, if the terms on which productive factors can be obtained (their supply prices) increase rapidly and final prices are moved up to cover increased costs, the

[1]We would hope that the provinces would adopt similar legislation.

flow of goods and services cannot be purchased at the higher prices unless consumers are willing and able to pay them, i.e., demand makes this possible. It follows that, if at the same time there is a firm intention to prevent final prices from rising, and production costs do rise, the effect of restriction of demand may be to make it difficult or impossible to sell the total flow of goods and services at the higher prices asked. A cutback of production, and a decline in the demand for productive resources can then occur. The result may be unemployment in particular industries.

We recommend that the Government of Canada maintain a firm position in defence of a stable level of domestic prices, and that the people of Canada lend their support to all policies appropriate to this end. We are fully conscious of the difficulties and complexities of achieving the objective, and feel that this Commission is not the body to define the appropriate measures to be taken from time to time. In so far as the problem has been, and may well continue to be, one of preventing a rise in the general price level, the appropriate measures are those which will slow down the rate of increase in demand and which will put a brake on the upward pressure of particular prices. But such measures will lack support or will not be implemented unless people—as citizens and participants in productive activities—recognize the need for them and are satisfied that their incidence is balanced and equitable. This may be too much to expect. However, we suggest that the primary need is for the wide dissemination of information and competent and detached comment on what is happening in the economy at any time.

As we have said before, we fail to see how, over the long run, an increase in the price level can be avoided if there persist, on any wide-spread scale, situations in which increases in efficiency or productivity do not generate a tendency to price reductions. Increases in efficiency or productivity may result from improved management practices, increased scale of operations, substitution of equipment for labour, application of new techniques, changes in work conditions, and increased skill of workers. The conditions are obviously complex, and it is important that incentives to introduce changes leading to increased efficiency should not be eliminated. The problem is one of reconciling the opportunity for gains from efficiency with the wide dispersion of the benefits from increased efficiency. The dispersion of benefits is effected through price.

We have a specific recommendation to make in order to keep the problem of prices, productivity and incomes, at least in the food sector of the economy, under continuous review. The proposal we have in mind is not inconsistent with our recommendations for dealing with particular situations. Indeed the proposals are complementary. *We recommend the establishment of a permanent Council on Prices, Productivity and Incomes which would keep the whole area of the food industries under review and which would present a yearly report to the Governor in Council.* The Council would be an independent body provided with funds to enable it to operate independently for periods of five years. The Council would have available to it the general information assembled by the official statistical services and might suggest to the Governor in Council procedures for effective coordination and direction of statistical services in the area of its concern. It could receive submissions from interested groups, but would not have authority to

require business firms to provide information to it. It would, however, have available to it results of inquiries into particular situations that we discuss later.[1]

Specifically, the Council would review the changes in relative prices and changes in incomes which have occurred. It would also give particular attention to changes in productivity and to situations in which increasing efficiency offers prospects of price reductions. It would interpret the changes in the general level of prices indicated by the price indexes. The report of the Council might include opinions on appropriate action, but the Council would not be called upon to make recommendations. The purpose of the report would be primarily to provide an additional medium for informed and competent comment on the developments occurring in the food marketing segment of the economy and affecting the returns to primary producers and to labour and capital employed in the food industries.

We have discovered that even when a problem of prices is defined in a restricted way, e.g., price spreads of food products, inquiry into the problem leads into the general area of prices, to which productivity and incomes are related. If the study is directed to particular products, it is impossible to avoid comparisons with other products, or consideration of the pervading effects of those elusive forces which are referred to as the general factors affecting the economy as a whole. Our terms of reference limit us to recommendations directed to the marketing of food products. However, because of the inescapable relations between all parts of the economy, we conclude that if the Council we propose is to serve its purpose it would inevitably find itself concerned with developments in other part of the economy. The Council might therefore be given the responsibility of reporting on Prices, Productivity and Incomes in the economy in general, perhaps with particular concern for the food industries.

The Commission is not firmly wedded to any particular procedure for setting up the Council. We would prefer to see the Council endowed rather than dependent on funds voted periodically by parliament or provided from time to time from other sources. The important feature is that it be as independent, and of course as competent, a body as possible; and if it is not too much to expect, one which would not in time develop any particular bias that would cloud its judgment. It might be well, we think, to provide for changing composition of the Council over the years.

B. *Prices in Particular Industries*

The Commission has called attention to two situations in which we think it evident that the public welfare is involved. These situations are the Breakfast Foods industry and Chain Store food retailing. The distinguishing characteristics are, first, abnormally high rates of return on equity capital, and, second, abnormally high promotional expenditures expressed as a proportion of sales. (In the case

[1]In both the United Kingdom and the United States, councils or committees exist with functions somewhat similar to those of the council we are recommending. We refer to the Committee on Prices, Productivity and Incomes in the United Kingdom (the Cohen Committee) and the President's Council of Economic Advisors in the United States. It is worth noting that these two bodies seem to have served useful purposes in countries in which there is, through a number and variety of journals and publications, much more in the way of competent and informed comment on economic processes than has yet developed in Canada.

of the Chain Stores, they receive substantial revenues from promotional allowances.) We use these two illustrations as a basis on which to recommend that there should be means to disclose situations in which there is a combination of high rates of profit and high promotional expenditures which persist over a period of time, and to bring them under scrutiny.

The machinery for this type of inquiry already exists under the Combines Investigation Act, although the Director of Investigation and Research under this Act may require more resources to carry out the functions effectively.

We recommend that the Director of Investigation and Research, Combines Investigation Act, be put in a position to extend inquiries into the buying practices (including contractual arrangements between buyers and primary producers) and the selling practices of large business organizations in the food industries and to give the results the widest possible distribution and publicity. It must be clear from the analysis contained in our report that the meaning and significance of information on these practices would be different in different instances, and so would the conclusions to be drawn from it. We have considered the possibility of statutory limitations to promotional expenditures (or to revenues for promotional purposes), or limitations to such expenditures (or revenues) for purposes of calculating net profits in the determination of corporation taxes, but we have discarded the idea of suggesting specific limits. It might well be, however, that the investigations of particular situations we are urging would lead to the conclusion that action to impose some limit on total promotional expenditures (or revenues), or the complete elimination of certain forms of promotion, would be best calculated to move firms in the direction of price reductions when they are in a position to give them. We are, indeed, inclined to think that firms who find themselves involved in the war of promotional devices might readily acquiesce to some agreed limitation of these activities.

We recommend that, if "stamp plans" are continued, it should be required of the retailer that, at the time purchases are made, the customer be given the alternative of a specified cash discount. The Commission does not wish to lend any semblance of support to stamp plans as they are now devised.

We have two other suggestions to be considered. First, the Commission would suggest that as an alternative to any possible limitation of promotional expenditures (or revenues) retail firms might elect, as they are permitted to do under existing legislation, to pay patronage dividends similar to those paid to members and non-members of consumer co-operative organizations. It is, of course, implicit in the thinking of the Commission that gains from efficiency in an industry be distributed without discrimination between customers. This is the great virtue of paying higher prices to suppliers or charging lower prices to buyers: price is available to all in proportion to their transactions.

Second, we would suggest that, where prices continue to be associated with a high level of return on investment, and no action seems to be possible to effect a reduction in prices, consideration might be given to defining for the industry a fair and reasonable return on investment, and that profits above this level be subject to a higher rate of tax.

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C. *The Problem of the Consumer*

Many groups represented at our public hearings, particularly the branches of the Canadian Association of Consumers, expressed a "consumers'" viewpoint on food marketing. The main criticisms contained in the briefs were directed towards, first, various practices we have referred to as "promotional services" or "non-price promotions", (frequently described as "gimmicks"), and second, practices of advertising, branding, grading and packaging which, it was said, made the consumers' problem of choice more difficult.

In our discussion of the causes of the widening of the spread we have indicated considerable agreement with those representing the consumers' viewpoint. We conclude that promotional services have been a factor in the higher prices being paid by consumers; and we have referred to the effects of some aspects of merchandising on the problem of consumers' choice. The earlier recommendations we have made rest on our analysis of the causes of the general increase in the spread. We believe that their implementation would result in benefits to Canadian consumers.

We have placed particular emphasis on the relation between prices and consumers' choice. Assurance of consumers' freedom of choice requires either an industrial structure through which increased efficiency is automatically translated into increased output and lower prices, (as in agriculture) or, where the structure does not require these, (as in food processing and merchandising), that the same effect is produced by the deliberate intent of the firms engaged in the industry. In so far as the proposed Council on Prices, Productivity and Incomes can contribute to lower prices in areas in which efficiency is increasing, it will reduce the tendency to inflation which erodes the real value of consumers' incomes. If the direction we recommend be given to inquiries by the Combines Investigation Administration serves to keep food prices (including services) in particular cases from rising as rapidly as they might otherwise do, this will be of further advantage to consumers.

Our conclusions represent, we feel, a defence of the sovereignty of the consumer and of the widest possible opportunity for intelligent choice on the part of the consumer. Although price behaviour is important to the opportunity for free choice, prices alone are not enough to ensure the greatest opportunity for intelligent choice. Prices are the terms on which alternatives are available to consumers, but if consumers are to buy wisely they must know what the alternatives are. We do not claim that consumers will always act on the basis of informed and considered judgments. What we do claim is that anything which makes it more difficult to exercise such judgments is not in the interests of consumers and anything which facilitates such judgments predisposes to the welfare of consumers. We recognize that the retail food store of today, presenting consumers with a range and variety of products which could hardly have been imagined a few years ago, is a triumph of the ingenuity of food merchandising. The criticisms of food marketing by consumer groups were directed at those aspects of the food marketing system which we agree make it more difficult than need be for consumers to choose wisely from the wealth of products laid out before them.

Section 5 (1) of the Food and Drugs Act reads "No person shall label, package, treat, process, sell or advertise any food in a manner that is false, misleading or deceptive or is likely to create an erroneous impression regarding its character, value, quantity, composition, merit or safety". The terms of this section of the Act are comprehensive enough that enforcement of the Act should reduce misrepresentation to a minimum. The Commission commends the proposed Section 32A of Bill C-70, an Act to amend the Combines Investigation Act and the Criminal Code, which states, "Everyone who, for the purpose of promoting the sale or use of an article or commodity, makes any materially misleading representation to the public, by any means whatever, concerning the price at which such or like articles or commodities have been, are, or will be, ordinarily sold, is guilty of an offence punishable on summary conviction". Representations made on behalf of consumers commented on food package labelling, proliferation of weights and sizes of packages and of types of containers, and the variety of terms used in grading products. These are all matters on which there is existing legislation, which come under the jurisdiction of various departments, and which the departments have continuously under review.

We feel that the co-operation of the trade is essential in dealing with these problems, *and we recommend continued efforts on the part of the departments in co-operation with the trade towards more informative labelling, standardization of container sizes, and simplification of grading and, further, with respect to misleading advertising specifically, we recommend that the Association of Canadian Advertisers, in co-operation with the Food Industry, be requested to draw up and administer a code of ethics designed to guide food advertisers generally and particularly to reduce misleading advertising.*

It seems to us that too often, as a consequence of the importunity and pressures of organized producers and tradesmen, governments direct their efforts towards the welfare of particular groups without adequate consideration to the effects on the larger, but generally unorganized and inarticulate body of consumers; and the evidence we have studied leads to the conclusion that, with the existing structure of the food industries, the welfare of the consumer cannot be assumed to be secured by the decisions of large industrial organizations. In so far as the determination of prices is affected by legislation, regulation, and administrative decision, there is a persistent problem of bringing to bear on these matters a viewpoint which is not influenced by the industry considerations involved and which can be described as the viewpoint of consumers in general. Legislation affecting prices and other matters related to prices, including food prices, comes under the jurisdiction of a number of departments, including appropriately the Department of Justice.

Industries which have points of view to present through the machinery of government are not at a loss to know where their views are to be presented or in obtaining competent professional advice to present their case effectively. It would be surprising if persons or groups having views to express as consumers, on food marketing and related matters, are informed as to where their views can properly be lodged in particular cases. The Canadian Association of Consumers can act as a channel of communication, but we think that the individual

consumer as well as the Association would be assisted if there were some office to which any particular representations might, at the first step, be taken. One function of the office would be to see that all representations were dealt with as expeditiously as possible by the appropriate branch of the government service. *We recommend that, as an instrument of liaison with consumers, an office bearing an appropriate name be established in the Department of Justice. We recommend further that the proposed office prepare, publish and keep up to date a report on legislative measures to protect consumers, and on services—governmental, trade, and voluntary—available to aid consumers.* We have in mind a document similar to the publication of the United Kingdom Information Service, Canada, entitled "Consumer Protection and Guidance in the U.K.".

It has been brought to our attention that, in some instances, there is provision for representation of the consumers' viewpoint on milk marketing boards. The principle seems to us to be a commendable one particularly where boards are involved in the determination of prices at or close to the consumer level.

We distinguish between consumer education and consumer information. Education should confer the capacity to use discriminating judgment, and we hope that Canadian educational institutions will intensify their efforts to develop this capacity as widely as possible. Consumer information may be provided on two levels: first, information with respect to the qualities and uses of particular products; and second, information which compares different products designed for the same purpose. Information on the characteristics of particular products should be expected of those who produce and sell them. Information on comparisons of various products is a different service. We have commented elsewhere on the service provided along these lines by self-sustaining organizations in the United States and the United Kingdom. At the moment there does not seem to have developed an effective demand for a service of this kind in Canada. In due course, as the market increases and as consumer interest builds up, we would expect such a service to emerge.

In the section "Wages, Profits and the Price Level" we have urged that the Government of Canada maintain a firm position in support of a stable price level; we have pointed to the responsibility which rests on those engaged in the food industries to assist where possible in avoiding price increases. We have attributed rising food marketing costs in part to the addition of services associated with food. These services have been bought and paid for by consumers. Lack of organization among the overwhelming body of consumers, and the understandable and proper diversity of preferences among them, may make it impossible to bring an effective consumer viewpoint to bear on the market. However, individual consumers can themselves influence the course of prices, and make their contribution towards more stable prices by recognizing that services must be paid for, that they too have a responsibility for the prices charged for particular food products at retail, and that they may not be able to get all the services they would like to have without increasing the cost of living.

As the experience of a few consumer co-operatives attests, it is possible for consumers who wish to participate in food retailing to band themselves together for this purpose. Co-operative organizations are instruments to serve the wishes of their members. Under the co-operative form of organization, if the members

are content with lesser services, i.e., to eliminate some of the services offered by other retailers, they can make their wishes effective. Provided the co-operative is efficienty managed, consumers can, through the receipt of patronage dividends, then purchase at effectively lower prices.

D. *The Problem of the Small Business Firm*

We have pointed out that we have been unable to discover evidence to support the view that the increase in the size of the large firms in the food industries, which has accompanied the general expansion of the market, has resulted in reduced costs and a tendency to reduce prices to consumers. We are disposed to explain this partly in terms of the tendency for large firms to compete in offering services rather than reduction in prices. We find no substantial basis to suppose that, if the major firms in the food industries continue to increase in size, this will operate in the direction of reducing prices to consumers.

Regardless of their relative efficiency in food processing and merchandising, firms, once they have become large, tend to have advantages over new firms or existing small firms. In a period of expanding demand and high profits the ability of the large firm to finance its growth by retention of earnings enables it to expand more readily than the small firm. The large firm can engage more effectively in promotional activities than can the small firm. When, by product differentiation and promotion, large firms have achieved established positions for their products in the minds of buyers, and have obtained some measure of control over outlets and sources of supply, it is more difficult for new small firms to enter the industry.

If economies of scale do not exist, or are not shared with consumers in lower prices, we see no good reason to encourage further increases in size of firms already large. We have, however, expressed the view that the solutions to the problems created by the structure of industries are not to be found generally in attempts to break up large firms. At the same time we are concerned about the narrowing opportunities which exist in our economy for individual initiative outside the framework of the large corporation. The emphasis we have intended in our report is on the widest possible distribution of the gains from efficiency, and it is not our wish to suggest procedures which would place on consumers the burden of maintaining high-cost firms. Nevertheless, we feel that in order to provide a greater measure of equality of opportunity for the small and efficient firm, and for the enterprising new firm, greater solicitude shoud be shown for the small organization and for businesses struggling to become established. In the concluding section of our recommendations we refer to deficiencies in the statistics on small firms, and *we recommend that more complete information on the operations of small enterprises should be obtained and made available*. This is the first and necessary step in devising action appropriate to the needs of the small business.

E. *The Problem of the Primary Producer*

The problem of the farmer is an intractable one. Within the period improved techniques, increased investment, and enlargement of the scale of operations on individual farms have resulted in very substantial increases in productivity. The productivity of resources in the agricultural industry is still comparatively low, and

it is in the general interest that it should be progressively raised. However, in agriculture the process of adjustment to increases in productivity is difficult and prolonged, and, if advances in productivity are to continue at a rapid rate, the industry may be faced with a continuing problem which is never completely resolved. In considering the past 10 years the gains to the Canadian consumer from low food material prices, although partly obscured by the superstructure of services, have been considerable. If the pressure of increased productivity on farms results in persistent low prices and returns to the resources in agriculture, there would be a strong case for measures to alleviate the effects on farm producers provided these measures are so devised as to avoid retarding the growth of efficiency and productivity in the industry. We do not interpret our terms of reference as calling for specific recommendations which do not bear directly on the spread in prices for food products. However, it does seem to us that the public expenditures made to agricultural producers over the period we have studied have certainly not been more than a fair quid pro quo for the low cost of food materials (as distinct from food services) to Canadian consumers, the burden of which has fallen on the primary producer.

The position of the Canadian farmer during the past 10 years has been affected by the external factors influencing the prices of his products and by the continuous pressure of supplies on domestic markets due to increased productivity on Canadian farms. The farmer's position has also been affected by the increase in his production costs. He has had to pay higher wages for labour, and higher prices for equipment and supplies than he would otherwise have done. The emphasis on the "cost-price squeeze" to which we refer in Part I is evidence of his recognition of this aspect of his problem.

The evidence we have studied has led us to the conclusion that there is an essential difference between the determination of prices at the farm level and the determination of prices in other markets between the farm and the consumer. The difference is related to structure. We have said that there is no practical possibility of reconstituting the food industries so as to create a structure similar to that in agriculture and, indeed, the irregularity of prices and incomes in agriculture raises doubts as to whether the structure of agriculture is a desirable model. *The general recommendations we have made are designed to bring about changes in the process of price-making in the food marketing system which would be of benefit to consumers (including farm families as consumers) and to primary producers through the relations between prices.*

We have noticed the substantial participation of primary producers through co-operative organizations in the related activity of assembling and wholesaling of farm products, the lesser activity of producer co-operatives at the processing level, and the small extent of co-operation in food retailing. These differences are understandable. In most cases producers become organized on a commodity basis, but, as we have seen, food materials tend to lose their separate identity as they move closer to the consumer. The retail co-operatives, where they exist, are organizations of consumers rather than producer co-operatives.

It is evident that, during the period, the returns from the marketing of food have been more substantial than the returns from the production of the food materials. This has been due to a considerable extent to the particular conditions

of the period. Even if similar conditions do not prevail in the future—and we trust that the more or less continuous rise in final prices can be checked—it may be that over the long period returns from agricultural production will be lower than in other parts of the economy. We would expect that the application of technology to agriculture will contribute to a continuous and significant rate of increase in productivity; on the other hand, there is little prospect of increased domestic consumption of food except that occasioned by population increases. Increasing productivity and inelastic demand for food materials imply a constant pressure of supplies on prices. On the other hand, as we have seen, there is considerable elasticity in the demand for services which may be associated with food. Consequently the provision of services is likely in the long run to prove an expanding and profitable activity. It is true that the area of expanding services has been, and as far as we can see is likely to continue to be found, closer to the consumer than to the primary producer. Nevertheless, it seems possible that organizations of farm producers engaged in marketing could augment the incomes of the primary producer.

We recommend a federal statute providing for the incorporation of co-operatives.

We have noted that our terms of reference are limited to consideration of factors which bear directly on the spread in prices for food products, and that the general recommendations we have made would be of benefit to farmers as producers and consumers. The Commission does not believe that, given the prevailing structure of food marketing beyond the farm markets, the operation of compulsory farm marketing boards would lead to any significant reduction in price spreads. Other aspects of marketing boards lie outside our terms of reference. However, if it were demonstrated that there is no effective means by which, in the food industries, gains from increased efficiency could be passed on to consumers generally in lower prices, this would, in our view, establish an indisputable claim by primary producers for the right to band themselves together with legislative sanctions in order to establish, on the selling side of the market, conditions similar to those found in the food marketing system.

5. Statistics

The Commission was instructed to

"examine the adequacy of price information currently available".

Our most intensive application of price data was in connection with the commodity studies reported on in Volume II, Part V. Here we comment on the nature and extent of the price statistics required for commodity price spread analysis. We describe in a general way the sources of information used, and refer to some of the difficulties in obtaining price series in the detail required for our purpose.

We are conscious of the deficiencies in the basic data used in our commodity studies and of the dubious nature of the assumptions that have had to be made at many points. Having in mind, however, the use that can be made of final price

spread measurements, we are not prepared to say that the measurements we have arrived at are seriously inadequate. What concerns us more is that, assuming the measurements were wholly accurate, it is possible to draw only rather limited conclusions of any substantial significance from them. Later in this section we consider "Statistics Required for Alternative Approaches to the Problems Underlying the Interest in Price Spread Studies".

Physical Quantities

We have gone to considerable length in Part V to present the conceptual problems inherent in price spread measurement, in order to demonstrate that when waste and by-products have to be taken into account the result is no longer a difference between market prices. Allowance for waste and by-products means an adjustment in either the price received by the farmer or the price paid by the consumer. When we tamper with either of these, we are no longer using a true market price but rather an adjusted figure which we have called a "value". This points up the essential problem of statistics for the purpose of price spread measurement. A commodity sold off the farm, for which a price is established, and the product sold at retail for a price are not the same article. Price spreads cannot be measured and analyzed without one, or several, statistical manipulations.

Complete and accurate adjustment for waste and by-products requires adequate data on the physical commodity flow, that is to say, quantities produced, stocks, shipments, exports, imports and purchases at retail (consumption) through all stages and steps in the marketing process. It must be possible to detect losses from the physical flow as and when they occur, and to detect and measure the by-product flow which branches off from the main stream. It is not an overstatement to say that in applying the methods and procedures described in Part V the ingenuity and resourcefulness of our analysts were put to greater test in finding and applying the required physical data than the price data. Mere identification of commodities and products at transfer points in the marketing system was itself a problem, but even when this problem could be solved there remained the difficulty of lack of quantitative information. We feel strongly that from time to time cut-out tests on beef should be made across Canada under valid sampling procedures (and the results published) so that the industry and other interested parties may keep in touch with cut-out changes (whether the changes be long-run, cyclical, regional or in heifer-steer differentials). We also suggest that live as well as dressed weights of slaughter cattle be published systematically to keep track of trends in the live-to-dressed yields.

When current quantitative information on the commodity flow is not available, changes in the flow can often be estimated by the use of conversion rates. These are standardized ratios of output to input in physical terms, e.g., the dressed weight of carcass obtained from a live beef animal. For many commodities conversion rates are not available. When rates are available, they tend to be based on scanty information, and may be quickly outdated by changing circumstances. Changing technology and other factors, including price relations, have substantial effects sometimes in even quite short periods on the real input-output ratio. If,

in belated recognition of such effects, a conversion rate is abruptly changed, its application may suggest a change in the price spread which is more artificial than real.

If commodity price spread studies are to be continued, more extensive and accurate data on physical commodity flows, or more general and accurate conversion rates, are essential.

Particular Prices

We have had difficulty in using available price data for the measurement of price spreads, largely because of the fact that these price data are collected primarily for purposes other than the calculation of price spreads. In measuring a commodity price spread, there is a problem of deciding what price (at the farm) to match with another price (at retail). This problem is related to grading. Some commodities are not graded and changes in quality cannot, therefore, be detected. Sometimes, when grades are established at the farm level, different grades and different labels become attached to the product before it reaches the consumer. Or again, products graded at the farm level may change before reaching the consumer and, on this account, may be downgraded or upgraded. In measuring the price spread, it is important to follow through the same material, and to relate prices to the specific material at each point of exchange. There is also the case where a farm material (e.g., meat animal) yields a number of final products. The accurate measurement of the spread associated with one product requires prices of all the products, but the prices of only a few may be recorded at retail. We feel that at least monthly prices of all major animal by-products should be collected and published. Finally, if the spread is to be measured for the whole of Canada, or by provinces and regions, prices in many markets must be brought together to establish a composite or weighted average price.

If commodity price spread studies are to be continued, there should be more complete price data by grades at all levels, and more data for particular markets, e.g., retail prices in cities.

Processing, Wholesale and Retail Spreads

In analyzing total farm-retail price spreads, it is useful to be able to determine the amount of the spread which occurs at different levels in the marketing system. For some commodities, we have attempted to measure the wholesale-to-retail spread (retail spread). The main difficulty arose in obtaining appropriate price quotations at processing and wholesaling levels. For many commodities the grades for which prices are reported at processing and wholesaling levels, which are obtained for purposes other than the measurement of spread, do not correspond to grades priced at other levels. Further, it was difficult to establish the kind of transaction represented by the price quoted. For some products there may be several different prices quoted for the identical product because of differences in the terms of sale or of the type of customer supplied. The difficulties referred to here are a reflection of the high degree

of processing involved between the primary producer level and retail, and of the intricate and complex marketing structure built up to deliver goods in an acceptable and useful form.

Incidentally, the same problem appears at the farm level, and for some purposes other than price spreads it would be desirable to elaborate the price data at this level in order to distinguish between the different types of transaction which occur, e.g., sale to buyers at the farm gate, sale delivered at a processing plant, sale direct to retailer, sale direct to consumer.

If commodity price spread studies are to be continued, there should be more complete and accurate information by commodities at the processing level, with an orientation of the statistics towards the purposes of price spread analysis.

Priorities in Improvement of Statistics for Price Spread Analysis

We do not imagine that the ideal statistical basis for commodity price analysis can be achieved. The resources required to obtain and maintain this level of accuracy would be too great to be justified. Having in mind the resources required to achieve greater accuracy at any point, and the degree to which the reliability of the final measurement could be affected, what priorities can be established? Out of our experience our answer would be that the most significant advances could be made by improved information on physical commodity flows. In view of the growing importance of the service trades, we would suggest that efforts be made to improve the price data at the processing and wholesaling levels. (We realize that, for purposes other than price spread analysis, there could be a case for improved price statistics at the farm level which would incidentally contribute to the greater validity of price spread studies.)

Statistics Required for Alternative Approaches to the Problems Underlying the Interest in Price Spread Studies

How important is it to strive for a substantial improvement in statistics for the purpose of price spread measurement? We have said elsewhere that, in order to come to grips with what we conceive to be the real problem, it is necessary to penetrate more deeply than the measures of the spread, and indeed to employ other statistics which are not themselves required for price spread calculations.

We have been able to draw some limited general conclusions from the price spread measurements we have made. With certain exceptions, the absolute spreads have increased. But the same conclusion can be reached by studying the margins of firms engaged in the handling and processing of farm food products, and the margins yield additional significant information. Again, the farm share of the retail price has declined in most cases, although there are some exceptions and there are wide differences in the farm share for particular commodities. Unless importance is to be attached to the precise measurement of the share and the exact magnitude of the changes in it in particular cases, these conclusions could be arrived at by less intricate statistical manipulations than are required to make a measurement of the spread.

But our main contention is that the concept of a "fair and reasonable" share, which is implicit in the importance apparently attached to price spread measurement, is an illusion. In Part V we have endeavoured to make clear that, because the farm price is a price for a material and the retail price is a price for both the material and the services added in the marketing system, there is no necessary relation between the two prices, and that the retail price can change without any direct effect on the farm price or on the returns to or welfare of the primary producer. If the spread is too large in any instance, it must be either because some of the services provided in the marketing system are redundant, or else because someone in the marketing system is getting an excessive payment for the services rendered. But the measurement of the spread—absolute or relative—or changes in it does not throw any light on these essential aspects of the problem, and the information required to investigate them can be more directly obtained in other ways.

In attempting to interpret the relation between prices of farm materials and of the marketing services which go into the final price, we have been forced to look back at the incomes of those engaged in marketing activities as contributors of productive services and as consumers. The farmer is concerned about the prices he receives (and pays) because they affect his income both absolutely and relatively. He naturally thinks of income in relation to his scale of living, which he would wish to see raised in relation to the effort he puts into production in labour and savings and in terms of the income going to other people, perhaps particularly people involved in handling his products. This, it seems to us, is the essence of the problem. We hope we have demonstrated, first that the comparison of prices entering into, or of shares of, the final price does not give a clear representation of the real problem; and second, that there are much more direct ways of going at it. We have had to point out that the relation between the prices of the things the farmer sells and the prices he pays (the "cost-price squeeze") gives a very inaccurate representation of the income position of the farmer over the past 10 years. But it is not impossible to devise statistics for the direct measurement of farmers' incomes, and there is need to improve those now available.

In so far as the problem of the farmer is one of his returns as a farm producer in comparison to returns to other producers in the economy, study of the problem requires adequate statistics on returns to labour and capital in farming and in other parts of the economy. To the extent that the problem of the farmer involves a comparison of his real income as a consumer to the real income of others, the statistics required are those which disclose the distribution of real incomes in the economy and the changes which occur over time. It is not necessary to go through the involved process of computing price spreads for commodities in order to measure incomes to people as producers or as consumers.

Incomes throughout the economy are affected differently by changes in the general level of prices but, in so far as inflation is related to the income problem, there are more direct means of measuring its effects than through a study of price spreads.

The efficient use of resources in the economy and the distribution of incomes are both affected by differences in industrial structure in different parts of the

economy. Because structure creates or contributes to problems of efficiency and income distribution, it should be the subject of direct and continuous study involving access to the required statistics.

For those several reasons, we recommend that the statistical services give more attention to improvement of data on incomes derived from productive services.

Income Statistics

In our view, the key to statistics of incomes derived from production service is to be found in the financial statistics of business firms. In relation to farm incomes, the essential unit is the farm. We realize that measures of aggregate gross farm income can be, and are, built up from estimates of commodity production on farms, and from information on the flow of commodities off farms, stocks on farms, and prices paid to farmers, and that net farm income can be estimated by developing measures of aggregate farm expenditures on supplies and services. We do not suggest that the procedures now used to estimate aggregate farm incomes should be discontinued or that efforts to improve them should be relaxed. However, the aggregates fail to disclose significant features of the income position of farmers. First, we have called attention to the fact that it is impossible to obtain statistics on incomes by types of farming, i.e., by major commodities produced. If farm incomes are to be analyzed from the point of view of returns to productive effort, it seems essential that the complex group of activities which are included under "agriculture" should be broken down into its component parts. This means statistics on specialized commercial farms (dairy, grain, poultry, beef, etc.), mixed farms, and part-time farms. To consider the incomes of people living on farms, as consumers, one must have, in addition to the income derived from farming, reliable information on income derived from non-farm sources. We are aware of the 1958 farm income and expenditure survey of the Dominion Bureau of Statistics in which information on off-farm income and on income and expenses by type of farm was obtained in addition to information on other matters. The results of this sample survey are not yet available. As we have indicated, we believe that the information obtained on off-farm income should be provided on a continuing basis. There is no way we can see by which aggregate measures of the income available to farm people as consumers and as producers can be obtained except on the basis of information obtained from the individual farm. We are not unaware of the difficulties involved, but we are prepared to lend our support to studies which would supplement available information on aggregate farm incomes. We emphasize that the problem is one of national income statistics which should not be confused with farm management studies.

With reference to incomes in other parts of the economy, the key source of statistical information is again the firm, although it may be necessary to aggregate information on firms in order to look at the performance of industries. Information on the operation of firms is important to the study of returns (incomes) derived from productive services. Our concern is with improved information on incomes from productive services in firms and industries, and particularly in the service industries, e.g., food retailing. At present, much of the information

on business operations is collected and presented on an establishment basis. We believe this information should also be brought together and presented with the firm as the unit of analysis and presentation.

We have discovered some gaps in the data necessary for the measurement of the complete returns to labour, particularly in food wholesaling and retailing. These gaps could, we believe, be best filled in by information supplied along with statements on the total operations of the firms, or obtained in such a way as to relate to information on total operations. There is insufficient information on salaries and on the range and distribution of earnings within the classification of salaries. Lack of quantitative measures of total fringe benefits make it difficult or impossible to compare the total returns to labour in particular industries. We suggest that information, consistent with clearly defined and useful definitions, should be an explicit part of the financial statements of firms obtained for the public purposes of statistical information, and should be related to the financial aggregates for the firm. Specifically, items purporting to cover earnings of employees should be supported by sufficient information to facilitate a thorough analysis of this part of the income distributed by firms, and of changes in it.

The desirable objective of an improved flow of statistical information on returns to capital in industries can be met only by building on information provided by firms. We have found difficulties in using information because of lack of uniformity in the classification of items in the financial statements, in the determination of depreciation, and in the valuation of assets including inventories. Information on sources of funds is singularly lacking. Financial statements do not show the quantities of the major materials involved in "Cost of Sales". We have noted elsewhere the need for more detailed information on promotional expenditures. The latitude provided in calculating depreciation under certain circumstances presents a problem in comparing net profits from year to year. Comparisons of returns by firms are invalidated by different bases for valuation of assets including inventories. The objectives should be to assure comparable measurement of shareholders' equity (net worth) and net income before taxes. We note that a certain amount of information on these matters is now available in the Dominion Bureau of Statistics "operating results" statistics for wholesaling and retailing. The presentation of these data in the form of ratios to sales limits their usefulness for the purposes outlined above.

Because of the existence of taxes on corporate incomes, considerable financial information is available from income tax returns. In addition, public companies are required to provide certain information to the public on their financial operations. Private companies, however, whether incorporated federally or provincially, are not required to provide such financial information. This category includes subsidiaries of many foreign firms. We have recommended earlier that private companies be brought under Section 121 of the Dominion Companies Act.

The difficulties of obtaining financial information are even more acute for unincorporated businesses. During the course of our inquiry several references were made to the problems of the small business enterprise. Most current statistical series do not reveal changes occurring in financial results and numbers

of small business firms, and we recommend that statistical collection and presentation methods be developed for this purpose. We recognize the difficulties in integrating and presenting financial results for unincorporated businesses in a form comparable to corporations, but we recommend that attention be directed to the development of such information in order that further attention can be given to the problems of small businesses.

Efficiency Statistics

In discussing the causes of increased spreads and in our recommendations, we have placed considerable emphasis on the relation between increasing efficiency and prices. We purposely use the term efficiency rather than productivity. In popular discussions, the term productivity seems to have become associated with labour. We mean by increased efficiency an increase in output without a proportionate increase in labour and capital employed. *We recommend the development of an approach to statistics designed to detect as quickly as possible the industrial situations in which efficiency is increasing most rapidly. We think this approach requires a closer consideration of the operations of firms in particular industries.*

The recently revised Standard Industrial Classification provides a framework in which the analysis of efficiency of various industries within the economy, including the sub-groups in the food industry, can fruitfully be conducted. We also believe that the provision of information on the structure of manufacturing and distribution would be useful, e.g., the distribution by industries of the activities of groups of firms of different sizes whose main activity is in, say, the slaughtering and meat packing industry or in, say, food retailing.

Statistical Services

Statistics which the Commission has used in studies of price spreads of food products and of the problems underlying price spreads have been provided principally by the Dominion Bureau of Statistics, the Department of Agriculture and the Department of Fisheries, the Department of Labour, the Department of National Revenue (Taxation Statistics), and the Department of the Secretary of State (returns from Dominion companies).

We have recommended a continuing Council on Prices, Productivity, and Incomes. The areas of statistics to which we have been referring would be of concern to the Council, and we have suggested earlier that the Council might be expected to advise on co-ordination and development of statistics relevant to its responsibilities. The Council, however, would not be involved in the assembling of statistical material. This would remain the responsibility of other agencies of the Government of Canada. If our suggestion of a Council is adopted, the Council would be required to comment and report on changes in prices, efficiency and incomes. It would advise on improvements in statistics which would enable it progressively to serve its purpose better; it would not, however, be in a position to require changes in the federal statistical services. Its advice would, we think, bear most directly on the services of the Dominion Bureau of Statistics. The Dominion Bureau of Statistics would be involved in the decisions respecting modification of

statistics which would be of use to the Council. The difference between the two bodies, as we see it, is that the Council is a body involved in analysis of certain aspects of the operations of the economy. The Dominion Bureau of Statistics is the principal arm of the government's statistical services and is concerned with statistics for purposes in addition to those required for analysis of prices, efficiency and incomes.

The Commission would be content, indeed we would prefer, to leave the progressive improvement of price, productivity and income statistics to the Dominion Bureau of Statistics. However, as required by the terms of reference, we have suggested certain areas of statistics which, from our experience in studying price spreads, we believe could be modified with advantage. For similar reasons we are making some observations on areas of responsibility for the collection of statistics on the matters of concern to the Commission.

We have suggested support for studies of farm incomes to augment the measures of aggregate farm incomes now made available by the Dominion Bureau of Statistics, and we have emphasized that this purpose is to be distinguished from the conduct of farm management surveys to provide guidance to farmers on management practicies. The product of the proposed sample studies is income statistics. We think, therefore, that the studies should be undertaken by the agency responsible for income statistics, viz., the Dominion Bureau of Statistics. However, we realize that the Bureau would continue to work in close co-operation with the Department of Agriculture.

The assembling and processing of information on the operation of business firms is, as we see it, a proper responsibility of the Dominion Bureau of Statistics and, where information for other purposes is required by departments, (e.g., Department of Labour) most of this should, we feel, be secured by the Dominion Bureau of Statistics within the framework of the information to be secured on the general operations of firms.

The Department of Agriculture is, and is likely to continue to be, most directly involved in commodity information at or close to the point of first sale by the farmer.[1] The direct interest of the Department is a result, among other things, of the responsibility for administration of marketing regulations, including grading and the provision of market information services. These administrative responsibilities, incidentally, yield much information on the quantities of farm commodities by kinds, grades and so forth moving into and through these markets and on the market prices established for them. These statistics are collected at relatively small cost by officials of the Department located at or close to the points where farm commodity transactions occur. Further, the operation of market information services predicates a requirement for continuous and penetrating analysis of the day-to-day and month-to-month marketing situations with particular reference to the establishment of prices. This latter responsibility implies a strong need for both quantity and price data to support the analysis and research necessary to the provision of helpful and impartial information for sellers and buyers of farm products.

[1]We refer here in the main to the prices recorded for sales at terminal markets, most of which are transactions between assemblers and buyers for processors and distributors. This excludes farmers' sales to drovers and other types of buyers who visit the farm to pick up commodities. We will discuss this point in a later paragraph.

In organizing our commodity price spread studies, we found it necessary for an understanding of price spreads and changes occurring in them to assemble a very considerable amount of detailed information, both quantitative and qualitative, relating to primary production, processing and the flow of commodities and products through the marketing system to the consumer. Much of the quantitative information, especially for the processing industries, was drawn from D.B.S. sources, while helpful information, mainly qualitative in nature, was drawn from expert sources in the Department of Agriculture. In the latter instances we were assisted particularly by appraisals of the effects of technology both in farm production and processing.

As a result of our experience, we suggest that the Federal Department of Agriculture concentrate its activities in data collecting on those situations where, as a result of its close association with commodity or other regulation, it can assemble statistics most readily. In general, the Dominion Bureau of Statistics can most effectively concentrate its efforts on sales (volumes and prices) by the farmer and on the processing and other activities further on through the marketing chain. This would include the price collecting role in these sectors. Our suggestions here do not disturb in general the existing division of labour in the collection of price data. The collection of information on the prices received by the farmer is an intricate statistical process and by nature is essentially one requiring a sampling procedure. We are aware of present deficiencies in the so-called farm price data and we believe the Dominion Bureau of Statistics is best equipped to carry out a program of improvement.

The Dominion Bureau of Statistics should in general be responsible for statistical presentation, even where other departments might have responsibilities for collection. However, in data presentation, we suggest that the Bureau should, in so far as possible, provide the breakdown required for various analytical purposes. In particular, we suggest a separate presentation of data on the food industry and on retail stores participating in voluntary chains. Although we do not recommend that commodity price spread measurements be continued, we consider it highly important that the economic aspects of commodity analysis be continued and strengthened. For this purpose many of the statistical series needed for price spread measurements are required in any event. We are concerned with the development of a type of commodity analysis which will yield an understanding of the price-making processes at various stages in the marketing system, but particularly prices at the farm, terminal commodity markets and into the processing levels.

Several representations were made to the Commission on the importance of speeding up the release of statistical information. We are aware that speed in collection, compilation and publication of statistics depends in part upon the amount of resources made available. Nevertheless, we suggest this matter should be reviewed to see what might be required to expedite release of statistics to the public.

While we understand that the assembling of information for national purposes is a responsibility of the Government of Canada, it has seemed to us that a larger participation by provincial and local governments, or a closer co-ordination between provincial statistical services and federal services, might be appropriate and effective. We are aware that statistical departments in a number of provinces

assemble and publish statistics in the area in which we have suggested that improvements could be most usefully made. We are also aware of the opportunities which now exist for co-ordination of statistical services. However, if changes are to be effected as a result of our suggestions and recommendations, this might provide a suitable opportunity to review the participation of provincial services and to secure added participation or co-ordination in certain areas. For example, we have referred to the problem of securing a larger and more general representative sample of retail prices by cities, provinces and regions. Here, it seems to us, is an area in which local interest is involved and in which local governments could be of considerable assistance.

FISHERIES

CHAPTER 4

FISHERIES

1. Summary of Volume II, Part VI, Fisheries

In comparison with agriculture generally the physical hazards and market risks are high in fishery production and marketing. The primary commodity is highly perishable, and the fresh product requires rigorously controlled conditions throughout the marketing system in order to avoid serious deterioration. Although a few resources may be capable of sustaining themselves, a considerable number of the more important fishery resources can be quickly exhausted since they are a common property resource and there is generally unrestricted entry into the primary fishing operations. Because of this, fishing is subject to government regulation and international agreement in the interests of conservation. The supply of some Canadian species is limited in the short run by conservation regulations; the supply in the long run is restricted by nature. Primary production is resource located and more remote from the influence of market factors than is agricultural production. Fish are caught mainly at considerable distance from the ultimate markets. The principal commercial species differ by regions. For all species only one-third, by value, is retained for domestic use. Only in the case of salmon is more than 50% consumed in Canada. Domestic consumption has remained relatively constant at from 13 pounds to 14 pounds edible weight per capita, or one-quarter pound per person per week. This is considerably less than the current rate of consumption of poultry meat.

Only a small proportion of Canadian fishermen are actively engaged in fishing or associated activities for more than 100 working days per year. The part-time and sporadic nature of the occupation makes it difficult to define a fisherman for purposes of measuring income per worker engaged in fishing. It is even more difficult to establish the relative levels and to trace trends in income of fishermen from their productive activities as we have done for agriculture. Increased investment in fishing gear points to some increase in production per worker. Prices of fishermen's supplies have increased. But we cannot say whether net real incomes per worker have increased or decreased during the last 10 years. Although in certain years returns per fisherman in the primary fisheries of British Columbia are relatively attractive, returns to labour and capital in primary production are, on the whole, considerably lower than in the marketing of fish.

Prices received by fishermen rose rapidly during the war and continued to advance in the immediate postwar years in close relation to disposable income per person. The check to the expansion of incomes in 1952 and the general increase in domestic and world food supplies, including fish, affected fish prices, but these did not fall as far or over so prolonged a period as the decline in farm prices. The explanation is to be found in the less rapid increase in productivity in the fisheries. The products being perishable, there is a relatively rapid

disposal of surpluses. Although fishing is a highly seasonal activity, prices paid to fishermen for several species of major importance do not display the seasonal variation characteristic of many farm product prices. Short-run variations in supply are not as a rule reflected in prices paid for salmon in British Columbia and for several groundfish species of the Atlantic fisheries. However, there is more variability, attributable to supply, in prices paid for species caught in inland waters, for Pacific Coast halibut and for lobster as well as for a number of species of lesser importance. At the Pacific Coast minimum seasonal prices are established by negotiation; stable prices in the Atlantic Provinces reflect price leadership and the apparent preference of fishermen for stable prices, perhaps based more on tradition than on consideration of advantage. At both coasts the participation of fish processing companies in fishing operations and in financing and, in nearly all inland fisheries the financing of fishermen by fish companies, also have an effect on prices paid to fishermen.

There is a high degree of concentration in the processing of fish and a high degree of vertical integration in the fishing industry. The number of salmon canneries in British Columbia was about 100 at the close of World War I; it is now 19, with ownership confined to an even smaller number of companies. Three large companies, B.C. Packers, Canadian Fishing Company and Nelson Brothers, account for most of the British Columbia pack of canned salmon and, along with Prince Rupert Fishermen's Co-operative Association, for the greater part of the frozen fish output. There has also been an increasing participation by fish processors in fishing operations and in warehousing and wholesaling. In the Atlantic region conditions under which fishermen sell their catch vary. Ocean Fisheries Limited and its subsidiary companies have been gaining control of an increasingly large part of the fisheries industry of the Maritime Provinces particularly in fresh and frozen fish. They also own wholesale and retail establishments in the large central Canadian markets into which move the bulk of the domestic fresh and frozen products. Their company trawlers land more than half of the fish handled by the company. There are many local co-operatives, federated into the United Maritime Fishermen, which both sell the fisherman's product and purchase his supplies.

The co-operative form of organization has played a considerable role in the processing and distribution of the catch in the Province of Quebec. Despite its difficulties, Quebec United Fishermen has given considerable leadership in product improvement. The total output of Quebec fisheries at the primary level approaches $4 million, and the wholesale and processed value about $7 million. Because of this relatively small output, there are no large plants in fish processing. The Government of Quebec, through assistance and encouragement to co-operatives and to the industry generally, has given substantial help.

Our analysis of the financial statements of firms engaged in fish processing indicates that profits have varied considerably from year to year around a level which cannot be judged to be excessive, and supports the contention of the industry that it has proved difficult to attract capital for new investment in the industry. Wages, which tend to be higher in British Columbia, are not out of line with returns to labour in comparable alternative occupations in the region. Apart from the integrated operations of Ocean Fisheries referred to above, the

more limited participation in distribution by B.C. Packers, and the existence of a few specialized wholesalers and brokers, the distribution of fish is carried on through general food outlets. On this account information is sketchy and provides no satisfactory basis for judging the returns in this phase of fish marketing.

Retail fish prices generally have moved upwards in about the same proportion as prices to fishermen and, in contrast to the marketing of farm products where spreads have increased more rapidly, the fisherman's share of the consumer's dollar has remained relatively constant. Tables 5 and 6 summarize our calculations of the spreads for several products. The shares to the primary producer, e.g., canned sockeye salmon, 41%, frozen halibut steaks, 38%, frozen cod fillets, 29%, fresh haddock fillets, 22%, do not seem to be out of line with the shares going to farm producers, having in mind the services rendered in the marketing system. The pricing practices of the industry seem to be such as to result in differences in the spread in particular markets; these differences in spread are not wholly accounted for by differences in distribution costs.

2. Conclusions and Recommendations

The difficulties of the fisheries are acute and persistent. They arise initially out of the basic physical and technical characteristics of the industry which confer upon it an unusual degree of hazard and risk. Resource management programs are necessary, but it is difficult to balance the physical and economic aspects of conservation policies, and there may be a tendency to over-emphasize the physical aspects. Within the conditions prescribed by resource management programs, efforts to organize the industry have failed to bring to fishermen advances comparable to those in other industries, including agriculture. This is a generalization to which there are exceptions. In some areas increased productivity, bargaining power, and improvement in the general economic environment have resulted in considerable advances in the economic position of the fishermen. But there are too many areas in which fishermen, struggling for a livelihood, face substantial problems associated with limited and poor fish resources, obtaining capital, application of improved techniques, markets and marketing organization and the lack of social amenities. Among the latter, the lack of educational facilities ranks high in importance since substandard conditions in education lessen the mobility of the fisherman and his family. To all these difficulties of the fisherman must be added the problems associated with shifts of population.

Productivity in agriculture is increasing rapidly as a result of technical innovations; many of them, through breeding and feeding, affect the efficiency of the biological equipment—crops and livestock. Whatever the short-run effects, in the long run these advances contribute to raising the level of farm incomes and make possible lower prices for food materials to consumers. Although increased productivity of the fishery resources is possible, gains parallel to the kind being experienced in agriculture have not generally been occurring. There are, again, exceptions. There has been improvement in boats and vessels (including a trend to larger size and greater efficiency) and in gear. New types of gear

Table 5—Summary of Fisherman-Retail Price Spreads and Fishermen's Share of Retail Price for Five Fisheries Food Products

Commodity[a]	Landed Weight Basis of Calculation	1949	1950	1951	1952	1953	1954	1955	1956	1957	1958
Fisherman to Retail Spread in Cents per Pound:											
(1) Canned Sockeye Salmon	(Round Weight)	35.5	33.4	36.5	32.0	31.5	31.9	41.4	39.9	39.8	40.0
(2) Frozen Halibut Steaks	(Headless, Dressed)	....	24.5	34.5	34.9	34.9	32.7	31.5	29.1	36.7	33.1
(3) Frozen Packaged Cod Fillets	(Head-on, Gutted)	....	....	....	9.4	8.6	8.0	7.3	6.7	7.1	7.5
(4) Fresh Unwrapped Cod Fillets	(Head-on, Gutted)	....	....	....	....	....	....	11.9	11.8	12.2	14.1
(5) Fresh Unwrapped Haddock Fillets	(Head-on, Gutted)	....	11.3	14.0	15.7	15.8	15.9	16.0	15.9	16.6	18.4
Fishermen's Share of Retail Price (Per Cent):											
(1) Canned Sockeye Salmon		34	38	41	44	41	41	37	41	41	41
(2) Frozen Halibut Steaks		....	45	33	32	30	33	28	43	31	38
(3) Frozen Cod Fillets		....	....	....	27	26	30	29	32	30	29
(4) Fresh Cod Fillets		....	....	....	....	....	....	20	21	20	18
(5) Fresh Haddock Fillets		....	35	28	26	23	23	21	24	22	22

[a] Lobster omitted because of insufficient price data.

Table 6—Fisherman-Retail Price Spreads and Fishermen's Share of Retail Price Related to Base Year 1950

Commodity[a]	Landed Weight Basis of Calculation	1949	1950	1951	1952	1953	1954	1955	1956	1957	1958
Indexes of Fisherman to Retail Spread:											
(1) Canned Sockeye Salmon		106	100	109	96	94	96	124	119	119	120
(2) Frozen Halibut Steaks		....	100	141	143	143	134	129	122	150	135
(3) Frozen Cod Fillets[b]		....	....	....	129	118	110	100	92	97	103
(4) Fresh Cod Fillets[b]		....	....	....	....	....	....	100	99	103	118
(5) Fresh Haddock Fillets		....	100	124	139	140	141	142	141	147	163
Indexes of Fishermen's Share of Retail Price:											
(1) Canned Sockeye Salmon		90	100	108	116	108	108	97	108	108	108
(2) Frozen Halibut Steaks		....	100	73	71	67	73	62	96	69	85
(3) Frozen Cod Fillets[b]		....	....	....	93	90	103	100	110	103	100
(4) Fresh Cod Fillets[b]		....	....	....	....	....	....	100	105	100	90
(5) Fresh Haddock Fillets		....	100	80	74	66	66	60	69	63	63

[a] Lobsters omitted, see Table 5.
[b] 1955 used as base for both frozen and fresh cod fillets because the price series for fresh fillets was not available prior to this year.

are being put into use and more effective materials, e.g., nylon, are being used. Other improvements increasing productivity include application of electronic devices for navigation, fish-finding and communication. Biological and oceanographic research have contributed to finding new stocks and are aiding the formulation of wise resource management programs.

The basic fact remains that fish products must compete with agricultural products in the mass food market of today. In this competitive situation fishery products have just maintained their place in the Canadian diet with a per capital consumpion of from 13 to 14 pounds per year. No significant increase in consumption per capita can be expected, nor can fish prices to consumers get far out of line with prices of other food products. It is true that some habits of fish consumption make for an inelastic demand for some fishery products, but for the superior fish products, such as salmon, lobsters and oysters, demand appears to be relatively elastic. On the other hand, at prices competitive with other foods, per capita consumption of these superior products may increase by substitution for cheaper forms. On the whole, we conclude that for the primary producer in fisheries, where depressed income levels and conditions exist, improvement means either dividing a relatively fixed aggregate gross income among fewer fishermen or increasing the prices to fishermen without a corresponding rise in prices to consumers, i.e., by a narrowing of the spread.

Against the conditions in the primary industry we have noted conditions and developments on the fish buying side of the industry, affecting the spread, which give cause for concern. The behaviour of prices at both the primary level and for fishery products sold in the domestic market indicates some measure of control maintained in part through ease in managing the relatively small volume going through the narrow domestic market channels. In the Maritime area we have referred to the growth of Ocean Fisheries Limited (National Sea Products) by acquisition of additional processing facilities and by expansion vertically into wholesale and retail establishments in the large central Canadian food market. In British Columbia we have noted the dominance of B.C. Packers and their domestic wholesale and brokerage operations in canned fish, and that this company, along with Canadian Fishing Company and Nelson Brothers, accounts for over 60% of the canned salmon output.

Despite the apparent degree of control, the average rate of profit in fish processing over the years cannot be described as excessive, nor are wages paid to employees generally high. The highly seasonal nature of the industry in British Columbia and the Application of resource management programs has tended towards over-capitalization in the industry which has had its effect on rates of return on investment. In the Maritimes a number of older fish plants were incorporated in the Ocean Fisheries organization (National Sea Products). Competition in the export market for frozen products has been keen with some northwestern European countries endeavouring to increase their share of the market in the United States and thus to obtain U.S. dollars. In general the secondary industry appears to be a hazardous one with marginal returns over the years. The difficulties in obtaining capital in order to advance the efficiency of the industry were brought to our attention.

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In the Maritime Provinces the organization of fishermen's co-operatives and processing plants has helped to bring a measure of stability to the industry and has added to the competitive strength of the primary producer by offering him an alternative outlet for his product. We have noticed the practice of establishing seasonal prices to the fishermen and the relatively stable level of prices over the years. It is suggested that the seasonal price conveys some advantages to the fishermen; it eliminates the uncertainty associated with day-to-day changes in prices reflecting fluctuating conditions of supply and demand. But we have no means of measuring the extent to which it may also be disadvantageous for it seems lively that, in the long run, a substantial part of the total risk of producing and marketing fish is passed back to the primary producer in the price he receives. The manner in which seasonal prices are established for most of the Atlantic Coast groundfish species is obscure. What is clear is that in comparison with the situation on the Pacific Coast, where prices are negotiated or determined by auction, or even where there is keen buying competition, the fisherman plays little part in the price determination process, and that there is substantial concentration and integration on the buyer's side.

On the Pacific Coast fishermen are organized in the United Fishermen and Allied Workers Union which includes both fishermen and shoreworkers, and in other unions associated with this union. For several years, minimum seasonal prices have been established by negotiation between the unions and the Fisheries Association of British Columbia, an organization of fish processors and buyers. The association between the fishermen and the shore-workers in the negotiation of fish prices is a peculiar one, but, in this region, fishermen do participate in the determination of prices received for their catch. We take note here of the current position: a statement of evidence has been filed by the Combines Investigation Branch and as an emergency measure the Federal Government passed a special Act exempting the British Columbia salmon industry from the application of the present Combines Act. In addition to the fishing companies in British Columbia, there is a strong co-operative organization at Prince Rupert; it is a particularly important factor in the marketing of frozen fish.

In Quebec, where much of the product is marketed in salted form, there are no large fish plants. There is a well-organized co-operative development with Quebec United Fishermen as the central organization.

In the inland fisheries there are widely-varying situations in the price-making process. Some degree of rationalization is noted in the Lake Erie fisheries where fishermen's co-operatives have played a significant role and, likewise, in Saskatchewan the co-operative approach together with the intervention of the government has been a factor in pricing. But there are many situations, particularly in those areas distant from markets, where the mysteries of price determination and price settlement with fishermen are difficult to fathom.

Newfoundland fisheries offer equally perplexing problems in respect to fish and fish product marketing and prices. A high proportion of the catch is destined for products in the salt form competing with output of several other countries possessing under-employed or unemployed labour resources. During the past few years there has been a switch from salt to frozen groundfish products, but market growth both at home and in the United States (virtually the only outlets for these

products) has been limited to population growth. Even new fresh and frozen products have, in the main, resulted in substitution for older forms rather than an additional to consumption.

The position of the fisherman is a peculiarly vulnerable one. He operates over a coast line of great length or in inland waters distant from final markets and disposes of his catch in numerous and scattered local markets. The commodity he brings to market is highly perishable; it must be sold immediately without benefit of government-defined and regulated grading. *We recommend that consideration be given to the establishment by governments of a system of grades defining sizes (weights, volume or appropriate measure) and condition or quality of raw fish materials particularly, and where necessary instituting similar grade definitions for products processed and sold by fishermen.*

If it appeared that effective competition in pricing could be achieved, our desire would be to recommend action appropriate to this end. We have considered the possibility of reconstituting the structure of the processing industry in the Maritimes so as to increase the effective number of buyers, as well as the possibility of a smaller number of primary markets at which fish could be sold at auction. However, we have come to the conclusion that the present organization of the fisheries, and particularly some of the highly vulnerable fishing communities, might be too seriously disturbed.

In our discussion of the factors affecting price spreads for farm products we have commented on the effects of producers' marketing boards. We point out that we have been unable to measure the effect on price spreads of such boards as have been in operation. In our recommendations on agriculture we state "The Commission does not believe that, given the prevailing structure of food marketing beyond the farm markets, the operation of compulsory farm marketing boards would lead to any significant reduction in price spreads." However, enabling legislation providing for agricultural marketing boards is provided in Federal statutes, and all provinces have passed their own legislation. Under this legislation, boards have been established when producers desired them and the requisite conditions were met. Although the Natural Products Marketing Act, 1934, made provision for marketing boards in fisheries as well as in agriculture, the present Federal legislation does not cover the fisheries.

We have noted the perishable nature of the products of the fisheries, which reduces the bargaining position of the primary producer. We have emphasized the problems which, in the fisheries, result from the relatively limited domestic disappearance of fishery products. We have called attention to the high degree of concentration and vertical integration in the marketing of fish products. These factors, and the view we have gained of the position of the fisherman, lead us to conclude that the primary producers in fisheries should be given the same opportunity as is open to farm producers—the opportunity to organize for the purpose of participating in the determination of the price received for his product through negotiation with the buyers.

We recommend a Federal Fish Marketing Act which would enable Provincial Governments wishing to do so to pass their own legislation, and thus to regularize the negotiation of prices to fishermen. In making this recommendation, we stress

certain qualifications regarding the negotiating procedures we envisage under legislation of this kind. In doing so we have in mind the desirability of keeping the "price spreads" as close as possible to those which would be expected under reasonably competitive conditions. First, we would expect that there would be a public accounting of the results of the negotiations. Second, we would expect the existing Federal Combines legislation and the investigating procedures connected with it to protect the public interest in the area of distribution practices and selling prices for fisheries products in the domestic market.

3. Statistics

Many of the suggestions we have made with regard to statistics in Chapter 3 apply equally to fishery statistics. We do not recommend intensification of efforts for the purpose of making more accurate measurements of price spreads in fisheries products but the arguments we have advanced for the improvement of income statistics in agriculture apply equally to the fisheries industry.

The measurement of price spreads of fishery products is particularly difficult in those cases (and these represent the majority of fishery products) where most of the output is exported. Accurate measurement of the spread would require adequate statistics on the relatively small portion of the product which finds its way into domestic retail markets. As we state in Part VI of Volume II this commodity flow is to a considerable extent irregular, both in respect to manner of movement to market and to periodicity of movement. Statistics of commodity flow are generally inadequate for accurate price spread measurements but we recognize that substantial improvements would be difficult and costly. This would be particularly so for the development of statistical series on the movement of fish products through the distribution system to retail.

While there are relatively good monthly statistics on physical stocks of frozen fish and to some extent also on stocks of other fish and fish products, the same coverage and detail is not available for stocks of canned fish. Stocks of British Columbia canned salmon are not reported and, therefore, are not included in Canadian Government statistical publications. For a number of statistical series on fish processing operations and on processors' inventories, it is difficult to publish them in the desired detail because of the small number of firms engaged in these activities. The Dominion Bureau of Statistics exercises great care in the presentation and publication of statistics to avoid identification and disclosure of information pertaining to individuals and separate establishments. As a consequence, it is frequently difficult to obtain data in detail on groups and sub-groups of products from official publications.

The reporting of price statistics is generally satisfactory for the Pacific Coast and Maritimes fisheries, especially with regard to weighted average prices paid to fishermen and current qoutations by markets and by species. There are gaps and deficiencies, however, in wholesale and retail price quotations for some of the important products sold in the domestic market and for export, but in

recent years steps have been taken to correct these. To some extent the foregoing observation applies to Newfoundland, although an exception must be made for salt fish products where there is room for improvement in statistics on current and seasonal average prices. But, we must deplore the inadequacy and the considerable measure of unreliability in production and price reporting for fish and fish products of the inland fisheries. *We recommend that steps be taken by the governments concerned to correct the unreliability of catch and price statistics for fish and fish products of the inland fisheries.*

In connection with our recommendations on statistics in Chapter 3, we have called attention to the problem of valuation of inventories in the food industries. The comments made there apply also to the provision of information for analysis of financial operations of firms in the fisheries.

In relation to income statistics, particular difficulties are experienced at the primary producing level. These difficulties result from the part-time nature of the occupation. The number of persons who subsist mainly on their earnings from catching fish is apparently relatively small. In fisheries a high proportion of enterprises would have to be classified as small or "part-time" rather than as commercial enterprises. For this reason, income derived from labour and capital employed in fishing has relatively little significance. We support steps now being taken by the Dominion Bureau of Statistics in the direction of improved measure of incomes. *We recommend that in this improvement program, steps be taken to provide information on total incomes received by fishermen, including earnings from all other occupations, and urge the improvement of statistics on the current flow of aggregate gross and net incomes from fishing activities.*

We have referred to the problem of the lack of published statistics due to the small number of firms engaged in marketing particular species in particular regions. We do not suggest that the Dominion Bureau of Statistics change its policy with respect to the publication of data covering less than three firms. We would expect, however, that in these circumstances the proposed Council on Prices, Productivity and Income would have access to information for particular firms.

We explained that we were not able to include Newfoundland in the presentation in general statistical tables because of the problem of matching the statistical series for fisheries with those for the other Canadian provinces. We are gratified to know that improvements have been made in the statistical series for the Newfoundland fisheries and in more recent years these have for the most part been arranged to be comparable with the main fisheries statistics for Canada. *We recommend the continuation of the program of improvement of statistics for the Newfoundland fisheries and their effective integration into the general fisheries statistics of the country.*

ALL OF WHICH WE RESPECTFULLY SUBMIT FOR YOUR EXCELLENCY'S CONSIDERATION

Andrew Stewart
Chairman

Dorothy L. Walton*
J. Howard MacKichan
Romeo Martin
W. M. Drummond
Claire Kidd
Bernard Couvrette**

John A. Dawson
Secretary

September 11, 1959.

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*Mrs. Dorothy L. Walton has signed the report subject to the reservations set forth in the Memorandum which follows immediately.

**An Addendum by Mr. Bernard Couvrette appears at page 91.

MEMORANDUM OF RESERVATIONS

by Dorothy L. Walton

Although I am in agreement with the part of the report on Fisheries, and in the main, concur with the parts of the report on Agriculture, there are some aspects of the latter on which I feel I must record reservations.

In my opinion, the parts of the report covering the price spreads of food products of agricultural origin place an undue emphasis on those components of the food marketing bill which in total make up 27% of the bill, but do not show the relative importance of the remaining components which account for 73% of the total food price spread (see Table MR-1). Also, I consider that undue emphasis is placed on one segment of the food marketing system—the wholesale-retail segment—which accounts for less than one-third of the food price spreads (see Table MR-2).

The introduction of the report acknowledges its emphasis on a limited number of components of the food marketing bill and on one segment of the food marketing system and explains why it has not been possible to make a complete breakdown of all of the components and segments. However, in order to show, in their true perspective, the various factors influencing the spread of food products, I consider it important to set out as clearly as possible the limits of the area from which the Commission has drawn its conclusions.

In addition, in dealing with competition or the lack thereof, I feel the interpretation in parts of the report is not supported by the evidence presented at public hearings or by the Commission's research data.

The details of my reservations are as follows:

A. *Components of the Marketing Bill*

The report examines in considerable detail, four components of the food marketing bill—transportation, advertising, cold storage and packaging materials. It shows the magnitude of each, the amount each has increased during the period 1949-57 and its relation to the total marketing bill and to the increases that have taken place in the bill. The figures covering these four components are taken from Table 29(a), Part IV, of the report, and I have reproduced them here in Table MR-1, along with the figures for "all other components", which taken together, make up the total marketing bill.

An examination of these data will show that the four components—transportation, advertising, cold storage and packaging materials in 1957, amounted to less than 27% of the total marketing bill in that year ($572 million out of a total of $2,132 million). It will also show that the increase during the period 1949-57 in the farm food price spread caused by these four components amounted to $340 million. In contrast, the increase in spread during the same period, of "all other components" amounted to $892 million, an amount more than two-and-one-half times the former figure.

Table MR-1—Analysis of the Marketing Bill by Components[a]

	Marketing Costs					
	1949		1957		Increase 1949 to 1957	
Component	Amount	Per Cent of Total Marketing Bill	Amount	Per Cent of Total Marketing Bill	Amount	Per Cent of Total Increase
	($ million)	(%)	($ million)	(%)	($ million)	(%)
Transportation	109		245		136	
Advertising	21		106		85	
Cold Storage	5		10		5	
Packaging Materials	97		211		114	
Sub Total	232	25.8	572	26.8	340	27.6
"All Other Components" (By Difference)	668	74.2	1,560	73.2	892	72.4
Total Marketing Bill	900	100.0	2,132	100.0	1,232	100.0

[a] Computed from Table 29(a), Part IV, Volume II.

It is regrettable that the report could not show in like manner, how the main part of the marketing bill or price spread (73% in 1957) was made up. It does deal with wages, salaries and profits in considerable detail and makes reference to incomes and other taxes but it does not give the magnitude of the total of any one of these nor the absolute increases that have taken place in each of them during the period. Thus, the importance of these components in relation to the total marketing bill has not been revealed nor has the importance of the increases that have taken place in them during the period 1949-57 in relation to the increase that has taken place in the total marketing bill.

Had it been possible to show as complete a picture of the magnitude of all of the components making up the marketing bill, the report's emphasis might well have been shifted to some of these "other components" which in total, make up the much larger portion of the marketing bill.

B. *Segments of the Food Marketing System*

The report brings out the fact to which reference is also made in the Introduction, that the most conspicuous change in the food marketing system in the last decade, has been the emergence of the supermarket as the dominant factor in the retailing of food, and this is dealt with in considerable detail.

Again, it is for the purpose of placing this matter in its proper perspective in relation to all of the segments that comprise the food marketing system, that I show a second able, MR-2. Figures showing the price spread (gross margin) of the retail and wholesale segments of the food marketing system have been calculated from figures taken from various parts of the report and from research documents, prepared by the staff of the Commission and are produced here along with figures showing the price spread of "all other segments", which taken together make up the total marketing bill.

An examination of these data will show (subject to the qualifying footnote of Table MR-2) that in 1957, the price spread of the corporate chains segment of the food marketing system was less than 11% of the total food marketing bill ($214 million out of a total of $2,132 million). It will also show that the total price spread of the combined wholesale-retail sector was less than 30% of the total marketing bill ($612 million out of a total of $2,132 million). Moreover, the table shows that during the period 1949-57, while the wholesale-retail segment

Table MR-2—Analysis of the Marketing Bill by Segments of the Food Marketing System[a]

Segments	Marketing Costs 1949 Amount	1949 Per Cent of Total Marketing Bill	Marketing Costs 1957 Amount	1957 Per Cent of Total Marketing Bill	Increase 1949 to 1957 Amount	Increase 1949 to 1957 Per Cent of Total Increase
	($ million)	(%)	($ million)	(%)	($ million)	(%)
Wholesalers	75		120			
Corporate Chains						
Grocery	5		14			
Combination	63		198			
Meat	1		2			
Sub Total	69	7.7	214	10.1	145	11.8
Independent Retail						
Grocery	63		106			
Combination	86		142			
Meat	26		30			
Sub Total	175		278			
Total Wholesale-Retail Segment	319	35.4	612	28.7	293	23.8
All Other Segments (By Difference)	581	64.6	1,520	71.3	939	76.2
Total Marketing Bill	900	100.0	2,132	100.0	1,232	100.0

[a] The magnitudes in this table are subject to a number of qualifications, and for this reason the Commission did not attempt to present them. I have developed these estinates of the various magnitudes in an attempt to bring out the relative proportions.

The sales of retail food stores by type are available only in 1951. Annual estimates are made for only two groups—"grocery and combination stores" and "other food and beverage stores". To obtain estimates for 1957 for a more detailed breakdown by type, it has been necessary to assume that the proportions of the business done by various types of food stores remained at the 1951 levels from 1949 and 1957. On this basis, the types of stores included in the table represented an estimated 98% of the sales of all corporate food chain stores and 84% of those of all independent food stores in 1957. To obtain the marketing cost of each of these groups, "gross margins" have been applied to the sales estimates; these gross margins are drawn from Table 9, Part III, Volume II. In each case we have the sales of food stores only. To the extent that more food is sold through non-food establishments, including restaurants, than non-food through food establishments, the sales volume has been underestimated and as a consequence, the marketing costs.

For the wholesale segment the same procedure was followed; similar problems were encountered and were dealt with in the same manner as for the retail segment. The sales of wholesalers given in the table represent an estimated 86% of sales of all food wholesalers.

The marketing costs of each segment as estimated in this table are compared with the total marketing bill, estimates of which are taken from Part IV of Volume II of the report. The marketing bill was estimated for farm food products of domestic origin destined for consumption in Canada. To relate the total marketing cost of any segment to the aggregate food marketing bill for domestic food only tends to overstate the proportion accounted for by the particular segment. (This is partially offset by the fact that the marketing costs estimated here for retailing do not include restaurant food whereas a value is included in the estimates of the marketing bill for this.)

A further difficulty arises in estimating the marketing cost for the overall wholesale-independent retail segment. It is assumed here that all products that are sold through independent food stores also are handled by food wholesalers. To the extent that this is not correct the estimate of the marketing cost for this segment is overestimated. With a shift from independent to chain store business during the period, this overestimate has the effect cf resulting in an understatement of the increase in marketing cost of the total wholesale-retail segment during the period.

was responsible for an increase in price spread of $289 million, the "all other segments" incurred increases in price spread of over $900 million, an amount more than three times the former figure.

The parts of the report which deal with the food processors show these to be an important sector of the food marketing system and the introductory comment indicates that the processors' share of the food marketing bill is greater than that of the retailers. However, I regret that again the report could not show the magnitude of the processors' share of the food marketing bill or the extent to which it contributed to the total increase in the bill during 1949-57, and that it could not indicate the remaining "other segments", which taken together with the food processors, are responsible for some two-thirds of the entire marketing bill.

Had it been possible for the report to show the magnitude of each of these "other segments" and the absolute increases that had taken place in them, I feel it is not only possible but highly probable that the Commission's emphasis might have been shifted from the retail sector which in 1957 was responsible for less than one-third of the food marketing bill to one or more of the "other segments" which, in total in 1957, accounted for more than two-thirds of the food marketing bill, and which were of even greater importance, having been responsible for more than three-quarters of all the increases that have taken place in the food price spread during the period under review.

C. *Competition*

The report states that "the chains are not low-cost, low-price firms" and that they have substituted competition in services for competition in prices.[1] I am unable to accept these statements without qualification:

(1) "low-cost": While evidence in the report shows that the gross margin of the corporate chain combination store (representing 90% of the corporate chain volume) has increased by approximately two percentage points during the period 1949-57 (15.7% to 17.4%) it also shows that the corporate chain combination store which performs its own wholesaling, operated in 1957 at a gross margin of 17.4% in contrast to the grocery wholesaler and independent combination store gross margin of 21.2%.[2] "Low" is a relative term, and whether the corporate chains are "low-cost" or not, the foregoing figures indicate they operate with gross margins that are considerably lower than those of their independent competitors in the field. While I deplore the trend to higher gross margins evidenced by the corporate chains during the period under review, because of its widening effect on price spreads and its reflection in either higher retail prices or lower returns to the primary producers, in all fairness I felt the foregoing should be brought out.

(2) "low-price": Here, I should like to point out that evidence obtained from a shopping study conducted by the Commission in two main cities in Canada, showed that prices of the corporate chains on average, were lower than those of the independents.[3]

[1]Volume I, Chapter 2, p. 10.

[2] This latter per cent may overstate the gross margin because it assumes that all items sold by independent food retailers go through wholesalers.

[3] This study is referred to on p. 45 of Part II of Volume II.

(3) "services": With regard to services, I consider that a clearer distinction should have been drawn in the report between (a) customer shopping conveniences such as free parking, etc.; (b) the services including transportation, cold storage, packaging etc., and (c) the services embracing technological developments in food including "built-in maid services" such as frozen foods, cake-mixes, instant puddings, pre-packaged salads, etc.

(a) In connection with these, I agree with the report that the services such as free parking space, good lighting, air conditioning, spacious and attractive stores, etc., which can be classed as customer shopping conveniences, are used by the supermarket to compete for customer's patronage. Evidence indicates, however, that in general the customer likes such conveniences and is not paying a higher price for her purchases at the supermarket than she would at an independent retail store not so equipped. Moreover, the customer has complete freedom of choice to utilize these services or to patronize a retailer who does not provide them or one who may offer other services such as delivery, credit, etc.

(b) The majority of other services, apart from a portion of advertising expenditures, are associated with the food product *ahead* of the retailing function. This applies to most of the costs of transportation, cold storage, packaging materials and to approximately 80% of the food advertising bill. The magnitude of these services is clearly shown in the report.

(c) The technological developments in food and the so-called "built-in maid services" also occur *ahead* of the retailing function.

All of the services in (b) and (c) are common to *all* retailers—chain store and independent—and for the most part, the retailer has very little direct control over them. Thus, in these areas of services, price is left as the main competitive weapon in the retail field.

I would like to observe that while some of the foregoing services such as transportation, cold storage, etc., cannot be disassociated from the food itself, others such as technological developments and the "built-in main services" can be. I agree with the report that built-in services increase the farm food price spread, but again I must stress the fact that retailers would not stock them unless customers continued to purchase them. Moreover, the customer still has almost complete freedom of choice to take advantage of the built-in maid service types of food or to purchase those less highly processed.

With regard to that portion of the advertising bill comprising premiums, stamp plans and other promotional schemes of the "gimmick" type, over which the retailer *does have* control, I am in complete agreement with the report, and hope that the appropriate authorities will implement the suggestion of the Commission in this respect.

Competition is essential for the successful operation of the free enterprise system, and as a consumer, I would be the first to speak out against any lack of it or suspected lack thereof. However, I feel that, as long as there are several major competitors and a multiplicity of smaller groups and single independent units, offering the consumer an alternative choice as to price, quality and service, competition will continue to play its part in serving the best interests of the consumer. I concur with the report, that Canada must continue to have strong

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legislation to provide the government with power to deal effectively with the food industries if ever and whenever there is an indication of monopoly or a combine.

In conclusion, I should like to state that I have seen nothing in the evidence presented to the Commission or from our research data that suggests in any way that there is a better proven way to control prices and price spreads than that which the free marketing system as it exists in Canada provides and I concur in this respect with the principle enunciated in Commissioner Couvrette's addendum.

With these observations and reservations I endorse the Commission's report.

ADDENDUM

by Bernard Couvrette

At the very outset of the Commission's studies, it became clear to me that a study of the food price spread problem, despite its particular concern with a limited field, actually involved a consideration of the whole economic and social system in which we live. Since I find nothing specific in the report that suggests any change in that system and since I concur in the main with its contents, I have signed it, but subject to the following observations.

I consider that these general principles basic to our system should have been given more prominence or received greater emphasis because they are at the root of any solution of the problem under study.

1. Although the report refers from time to time to the private enterprise system, I feel it is necessary to indicate quite definitely that we in Canada are living under a system of private enterprise and that this system should be clearly differentiated from one involving a large degree of state intervention and control. This, I believe, is desirable in order to avoid any misinterpretation of what is meant by the term "mixed economy" as stated in the report.

In my opinion, the private enterprise system has been primarily responsible for the economic development of this country and the high level of prosperity and standard of living which its people have come to enjoy. In the food field in particular, the consumer has never been treated so well.

All of this is not to say that the private enterprise system has been without its defects. It may be said that in some industries and at certain periods profits have been too high, sometimes out of proportion to the services rendered. However, such imperfections can be looked upon as exceptions to the general rule and are by no means sufficient to discredit the system in general. Moreover, the consequences of any such imperfections are likely to be relatively slight so far as the general welfare is concerned. In view of this situation, I think we should ask ourselves frankly whether there is any alternative system to that of private enterprise which would yield equally satisfactory results and at the same time have any fewer defects.

2. As stated in the report, if this private enterprise system is to perform its functions, a satisfactory rate of return on investment is absolutely necessary.[1]

I fully agree wih this statement, but I believe that it is necessary to emphasize the difficulty of determining when a rate of profit is excessive. I think it is important to draw attention to the fact that the rate of profit is not merely a rate of interest on a loan as the term "rate of return on investment" as used in the report seems to suggest. In addition to this, I feel that profit is also partly a reward for incurring risk and something which provides an inducement to develop new methods and provide for satisfactory maintenance and expansion.

3. In the report it has been stated that profit rates in certain cases have been very much above the rates for industry generally. Perhaps it is necessary to draw

[1]This volume, p. 41.

attention to the fact that this has happened in a very exceptional period—a period which can hardly be expected to continue indefinitely. It may indeed be noted that some of these rates of profit have already begun to decline. This raises the question as to wheher it is advisable to pass any judgment on the fairness of profits during a period of such prosperity and, on the basis of any such judgment, attempt to introduce regulatory measures in this connection, such as those mentioned in the report in connection with promotional expenditures. It should be remembered that, while profits may be high during certain periods, they may well fall during others and, indeed, may even disappear altogether in some cases.

4. In the report it is stated[1] that even though profits may represent only a small percentage of sales or of the selling price this does not mean that profits are not excessive.

This is true, but this statement must be considered very carefully. Of course, if it were decided that a return of, let us say, 15% or 20% on investment is to be considered excessive, it would then be perfectly justifiable to do everything possible to reduce such profits, even if the advantage to the consumer of such reduction were to be relatively small. But, since it is difficult to determine when profits are excessive, it becomes somewhat hazardous to try to place specific limits, especially when it is considered that on the one hand nobody would gain very much, and on the other hand that it would jeopardize the progress of the economy generally.

Apart from the foregoing, I concur in the views expressed by Commissioner Walton in her reservations.

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[1]This volume, p. 39.

APPENDIX A

Hearings

The Commission held public hearings in 12 cities throughout Canada during 1958, including cities in all the ten provinces. During the 31 days of hearings, the Commission received 100 submissions.

Public hearings of the Commission were conducted in the following cities:

Vancouver	April 9-11
Edmonton	April 14, 15
Winnipeg	April 17, 18
Regina	April 21, 22
Fredericton	April 28, 29
Charlottetown	April 30
Halifax	May 1, 2
St. John's	May 3
Toronto	September 12-17
Quebec	October 14
Montreal	October 15, 16
Ottawa	November 12-21

APPENDIX B

Submissions Received

Public Hearings

Exhibit No.

1 Alderman Anna E. Sprott, City Council, City of Vancouver.

2 Mr. C. E. S. Walls, Secretary and Manager, British Columbia Federation of Agriculture.

3 Mr. Elvin Masuch, Member, East Kootenay Berry Co-operative Association.

4 Mr. Basil Gardom, President, Independent Milk Producers' Co-operative Association.

5 Mrs. Elizabeth Mills, President, Canadian Association of Consumers (British Columbia Branch).

6 Mr. H. S. Bose, Vegetable Producer in the Municipality of Surrey, Province of British Columbia (Cloverdale, B.C.).

7 Mr. George Wyndlow, Potato Producer on Vancouver Island (Ladysmith, B.C.).

8 Mr. Homer Stevens, Secretary-Treasurer, United Fishermen and Allied Workers Union.

9 Honourable L. C. Halmrast, Minister of Agriculture, Government of the Province of Alberta.

10 Mr. Arnold Platt, President, Farmers' Union of Alberta.

11 Mr. G. L. Harold, Chairman of the Board of Directors, Alberta Wheat Pool.

12 Mr. James R. McFall, Secretary, Alberta Federation of Agriculture.

13 Hon. C. L. Shuttleworth, Minister of Agriculture and Immigration, Government of the Province of Manitoba;
Mr. L. P. Kristjanson, Extension Economist, Department of Agriculture and Immigration, Government of the Province of Manitoba.

14 Mr. John Cowan, Deputy Minister of Mines and Natural Resources, Government of the Province of Manitoba; Mr. H. T. Tomasson, Fishermen's Representative, Department of Mines and Natural Resources, Government of the Province of Manitoba.

15 Mr. C. C. Dixon, Managing Director, Manitoba Federation of Agriculture and Co-operation.

16 Mr. James Paterson, President, Manitoba Farmer's Union.

17 Mr. Evan McCormick, Executive Director, Winnipeg Chamber of Commerce;
Mr. W. Scott Neal, First Vice-President, Winnipeg Chamber of Commerce.

18 Mr. H. E. Bryant, Secretary-Treasurer, Prairie Fisheries Federation.

19 Mr. W. E. Kroeker, Director, Vegetable Growers Association of Manitoba.

20 Dr. Isabel MacArthur, Vice-President, Canadian Association of Consumers (Manitoba Branch).

21 Hon. I. C. Nollett, Minister of Agriculture, Government of the Province of Saskatchewan.

22 Mr. W. H. Horner, Deputy Minister of Agriculture, Government of the Province of Saskatchewan.

23 Mr. J. E. Ridley, Chairman, Milk Control Board of Saskatchewan.

Exhibit No.

24 Mr. W. A. Houseman, Chairman of the Board, Saskatchewan Fish Marketing Services.

25 Mr. A. R. Stevens, Assistant Secretary, Saskatchewan Wheat Pool.

26 Mrs. H. C. Boughton, Provincial Standards Convenor, Canadian Association of Consumers (Saskatchewan Branch).

27 Mr. K. F. Harding, Secretary, Prince Rupert Fishermen's Co-operative Association

28 Mr. A. P. Gleave, President, Saskatchewan Farmers' Union;
Mr. Stuart A. Thiessen, Secretary-Treasurer, Saskatchewan Farmers' Union.

29 Mrs. Gertrude Kilroy, Regina Labour Council Executive Member, Saskatchewan, Federation of Labour.

30 Mr. J. H. Harrison, Member, Saskatchewan Poultry Association.

31 Mr. William Hamilton, Executive-Secretary, Co-operative Union of Saskatchewan.

32 Mr. H. L. Fowler, Secretary, Federated Co-operatives Limited.

33 Mr. G. G. Anglin, President, National Council of the Baking Industry;
Mr. Arthur May, Managing Director, National Council of the Baking Industry.

34 Mr. Lloyd Sloat, President, New Brunswick Federation of Agriculture.

35 Mr. W. R. McEwen, Secretary-Manager, Maritime Co-operative Services Ltd.

36 Mrs. V. E. Falkjar, President, New Brunswick Branch, Canadian Association of Consumers.

37 Mr. Colin B. Waugh, President, Prince Edward Island Federation of Agriculture.

38 Mr. L. O'Connor, President, Co-operative Union of Prince Edward Island;
Mr. Donald MacDonald, Secretary-Treasurer, Co-operative Union of Prince Edward Island.

39 Mr. R. F. Johnson, Executive Secretary, Nova Scotia Fish Packers Association.

40 Mr. R. F. Johnson, Secretary, Canadian Atlantic Salt Fish Exporters Association;
Mr. Donald MacKenzie, Vice-President, Canadian Atlantic Salt Fish Exporters Association.

41 Mr. H. S. MacLeod, Secretary-Treasurer, Nova Scotia Federation of Labour.

42 Mr. Ross Hill, President, Nova Scotia Federation of Agriculture.

43 Mrs. C. Gus Manolopoulos, President, Canadian Association of Consumers (Nova Scotia Branch).

44 Mr. P. S. Murray, Deputy Minister of Mines and Resources, Government of the Province of Newfoundland.

45 Mr. Doyle M. Sharpe, President, Newfoundland Federation of Labour;
Mr. Alex Bannister, Secretary-Treasurer, Newfoundland Federation of Labour.

46 Mr. Patrick Antle, Acting Secretary General, Newfoundland Federation of Fishermen.

47 Mr. George Wilkey, Secretary-Treasurer, Co-operative Union of Ontario.
Mr. J. Lindsay Inglis, President, First Co-operative Packers of Ontario.
Mr. Joseph Rudney, Manager, Kimberley District Co-op Creamery.
Mr. J. A. Irvine, Manager, Elgin Co-operative Services.
Mr. Charles M. Haapenen, Manager, Consumers Co-operative Society Limited.
Mr. Verne Kallio, Manager, Sudbury Producers and Consumers Co-operative Dairy Limited.
Mr. George McCague, President, United Dairy and Poultry Co-operative Limited.
Mr. T. E. W. Graham, Manager, Ontario Fishermen's Co-operative.

48 Mrs. W. A. C. Shepherd, President, Canadian Association of Consumers (Ontario Branch).

Exhibit No.

49 Mr. Gordon Hill, President, Ontario Farmers' Union.

50 Mr. D. A. Ross, President and General Manager, Canada Bread Company Limited.

51 Mr. Lloyd Jasper, Immediate Past President, Ontario Federation of Agriculture.

52 Hon. L. M. Frost, Premier of Ontario.
Hon. W. A. Goodfellow, Minister of Agriculture, Government of the Province of Ontario.
Dr. Clifford Graham, Deputy Minister of Agriculture, Government of the Province of Ontario.
Dr. George Gathercole, Deputy Minister of Economics, Government of the Province of Ontario.

53 Mr. D. F. Hamilton, Secretary-Treasurer, Ontario Federation of Labour;
Mr. Gordon Milling, Research Director, Ontario Federation of Labour.

54 Mr. William Price, General Manager, Black Bros. Commission Agency;
Mr. Fred Campbell, General Manager, Ontario Stockyards.

55 Mr. H. R. Berg, General Manager, York Trading Limited.

56 Mr. S. D. Elton, Secretary-Treasurer, Red and White Corporation;
Mr. J. A. Collier, Manager, Red and White Corporation.

57 Mr. T. G. McCormack, President, Dominion Stores Limited;
Mr. Ivor Crimp, Vice-President, Services, Dominion Stores Limited.

58 Mr. F. H. Knapton, Sales Manager, A & P Food Stores Limited.

59 Mr. R. H. Bainard, General Manager, National Grocers Company Limited.

60 Mr. Alfred Levesque, Secretary-General, L'Association des Marchands Détaillants du District de Québec.

61 Mrs. Jules Savard, L'Association Canadienne des Consommateurs (Quebec French Section).

62 Mr. Paul Emile Charron, Vice-President, Conseil de la Coopération du Québec;
Mr. Léo Bérubé, Secretary-General, Conseil de la Coopération du Québec.

63 Mr. Armand Goulet, President, La Fédération des Magasins Co-op.

64 Mr. Sam Steinberg, President, Steinberg's Limited;
Mr. Jack Genser, Vice-President, Steinberg's Limited.

65 Mr. R. S. Saxby, President, General Bakeries Limited.

66 Mrs. E. H. Piper, President, Canadian Association of Consumers (Quebec English Branch).

67 Mrs. W. Victor George, Chairman of the Economics Committee, Montreal Council of Women.

68 Mr. C. A. Majeau, General Manager, L'Association des Détaillants en Alimentation du Québec.

69 Mr. Charles McInnis, President, Ontario Hog Producers' Association.

70 Mr. Shermon Yaphe, Karpman-Yaphe, Fruit Wholesalers, Montreal.

71 Mr. C. J. Morrow, President, Ocean Fisheries Limited.

72 Mr. Walter J. McCann, President, Canada Safeway Limited.

73 Mr. R. G. Meech, Q.C., Vice-President, Loblaw Groceterias Co., Limited.

74 Mr. L. A. Miller, President, General Foods Limited.

75 Mr. G. M. Johnston, President, Kellogg Company of Canada, Limited.

76 Mr. I. M. Pollock, President, Nabisco Foods, Limited.

77 Mr. R. S. Munn, President, Burns and Company, Limited.

78 Mr. Stanley H. Knowles, Executive Vice-President, Canadian Labour Congress.

79 Mr. J. Patterson, Chairman, Interprovincial Farm Union Council.

Exhibit No.

80 Mr. W. R. Hetherington, Vice-President and General Manager, Manitoba Sugar Company Limited.
81 Mr. Ian Angus, Assistant General Manager, Canadian Sugar Factories Limited.
82 Mr. W. F. McLean, President, Canada Packers Limited.
83 Mrs. F. E. Underhill, Chairman of Economics, National Council of Women.
84 Mr. R. S. Staples, President, Co-operative Union of Canada;
Mr. Alexander Laidlaw, National Secretary, Co-operative Union of Canada.
85 Mr. John Lenglet, Assistant Director, United Packinghouse Workers of America;
Mr. Lyle Cooper, Research Director, United Packinghouse Workers of America.
86 Miss Isabel Atkinson, National President, Canadian Association of Consumers.
87 Mr. J. N. Hyland, Vice-President (Sales), British Columbia Packers Limited.
88 Mr. F. A. B. Rands, General Manager, National Foods Division, Retail Merchants' Association of Canada, Inc.
89 Mr. J. G. Wharry, President, Quaker Oats Company of Canada Limited.
90 Mr. G. W. Ryan, Vice-President and General Manager, General Mills (Canada) Ltd.
91 Mr. E. F. K. Nelson, General Manager, Canadian Retail Federation.
92 Mr. Grant A. Mason, President, Clover Farm Stores of Canada Limited.
93 Mr. C. N. Ward, Vice-President, Kraft Foods Limited.
94 Mr. Morgan Reid, Chairman, Executive Council of the Canadian Chamber of Commerce.
95 Dr. H. H. Hannam, President, Canadian Federation of Agriculture;
Mr. David Kirk, Secretary, Canadian Federation of Agriculture.
96 Mr. J. Whyte, President, Meat Packers' Council of Canada;
Mr. E. S. Manning, Managing Director, Meat Packers' Council of Canada.
97 Mr. Roger Mathieu, President, La Confédération des Travailleurs Catholiques du Canada;
Mr. Jean Marchand, Secretary, La Confédération des Travailleurs Catholiques du Canada.
98 Mr. Aim Boisvert, Executive Vice-President, Canadian Wholsale Grocers Association.
99 Mr. Bertram Loeb, President, M. Loeb Limited.
100 Mr. Nelson Clarke, Editor, Canadian Tribune;
Mr. Sam Walsh, Organizer, Toronto Area, Labour-Progressive Party.

Supplementary Documents

Document No.

1 Letter from David Kirk, Secretary, The Canadian Federation of Agriculture, February 18, 1958.
2 Letter from Nelson Mann, Executive Manager, Atlantic Provinces Economic Council, April 8, 1958.
3 Letter from C. C. Janes, Managing Director, Newfoundland Co-operative Union, April 11, 1958.
4 Document from La Chambre de Commerce de la Province de Québec, October 27, 1958.
5 Document from the Quebec Farmers' Association, October, 1958.
6 Document from the Canning and Freezing Variety Raspberry Growers Committee, Lower Mainland Horticultural Improvement Association, British Columbia, November, 1958.
7 Document from the Ontario Fruit and Vegetable Growers' Association, November, 1958.
8 Document from La Coopérative Fédérée de Québec, December 20, 1958.
9 Document from the Canadian Association of Consumers, May 27, 1959.

APPENDIX C

Questionnaire Returns

Chain Food Store Organizations (10)

Canada Safeway
Dionne Super Markets
Dominion Stores
Grand Union-Carroll's
Great Atlantic & Pacific Tea Company
Litvack Bros.
Loblaws
O. K. Economy Stores
Shop-Easy Stores
Steinberg's

Voluntary Group Headquarters (3)

Clover Farm Stores of Canada
Independent Grocers' Alliance
Red & White Corporation

Food Wholesalers (13)

A. E. Hickman Company
Associated Grocers
Atlantic Wholesalers
Bolands
Gamble-Robinson
G. T. Armstrong & Sons
Higgins & Burke
Horne & Pitfield
Kelly, Douglas & Company
National Grocers Company
Shop & Save (1957)
Western Grocers
York Trading

Meat Packers (9)

Brandon Packers
Burns & Company
Canada Packers
Essex Packers
Fletcher's
Gainers
Intercontinental Packers
J. M. Schneider
Swift Canadian Company

Fish Processors (8)

British Columbia Packers
Connors Brothers
Francis Miller & Company
J. H. Todd & Sons
National Sea Products
Nelson Brothers Fisheries
Omstead Fisheries
Queen Charlotte Fisheries

Fruit and Vegetable Processors (15)

Alberta Canning Company
Alphonse Raymond
Campbell Soup Company
Canadian Canners
Culverhouse Canning Company
Dyson's
Georgian Bay Fruit Growers
Green Giant of Canada
Grimsby Foods
H. J. Heinz Company of Canada
Kent Foods
Libby, McNeill & Libby of Canada
Renaud & Frères
Stokely-Van Camp of Canada
W. Clark

Dairy Products (8)

Black Diamond Cheese
Borden Company
Dominion Dairies
Kraft Foods
MacFeeters Creamery
Mount Royal Dairies
Silverwood Dairies
Standard Brands (Ingersool Cheese Company)

Prepared Breakfast Foods Firms (7)

Cream of Wheat (Canada)
General Foods
General Mills (Canada)
Kellogg Company of Canada
Nabisco Foods
Prairie Maid Cereals
Quaker Oats Company of Canada

Flour Mills (7)

Eastern Canada Flour Mills
Lake of the Woods Milling Company
Maple Leaf Milling Company
Ogilvie Flour Mills Company
Pillsbury (Canada)
Robin Hood Flour Mills
T. H. Taylor Company

Bakery Firms (5)

Canada Bread Company
Eastern Bakeries
General Bakeries
McGavin Bakeries
Wonder Bakeries

Sugar Refineries (3)

Canada and Dominion Sugar Company
Canadian Sugar Factories
Manitoba Sugar Company

Co-operatives (34)

British Canadian Co-operative Society
Cape Breton Dairymen's Co-operative Society
Central Alberta Dairy Pool
Coopérative Fédérée de Quebéc
Consumers' Co-operative Society (Timmins)
Corner Brook Co-operative Society
First Co-operative Packers of Ontario
Fraser Valley Milk Producers' Association
Grand Falls Co-operative Society
Grey-Bruce Co-operative Association
Harwood Co-operative Creamery
International Co-operative Stores (Port Arthur)
Kitchener-Waterloo Co-operative Services
La Coopérative de Consommation de La Tuque
La Familiale Coopérative de Consommation (Montreal)
La Ménagère
Les Producteurs de Sucre d'Erable de Québec
Moose Jaw Co-operative Association
New Dundee Co-operative Creamery
Norfolk Berry Growers' Association
Norfolk Fruit Growers' Association
North Bay Co-operative Creamery
North Grey Cheese Co-operative
Northern Alberta Dairy Pool
People's Co-operative (Port Arthur)
Prince Rupert Fishermen's Co-operative Association
Quebec United Fishermen
Saskatoon Co-operative Association
Saskatchewan Co-operative Creamery
Sherwood Co-operative Association
Société Coopérative Agricole de Granby
Société Coopérative Agricole de St-André Avellin
Sudbury Producers and Consumers Co-operative Dairy
United Maritime Fishermen

APPENDIX D

Table of Contents, Volume II

AGRICULTURE

FISHERIES